DOCUMENT RESUME

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AUTHOR	Young, Donna, Ed.
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IDENTIFIERS	*Income Taxes; Oregon; *Tax Preparation

ABSTRACT

This student manual contains materials for a 20-session course in basic income tax preparation. Each session may include some or all of these components: a reading assignment, a vocabulary list, interview questions pertinent to that session's subject matter, informative/reference materials, problems to work out in class or at home, exercises, and tax returns. Topics covered are filing requirements, exemptions and deductions, gross income, itemized deductions, income tax computations, Oregon Tax Preparer Licensing Law, IRS Tax Practitioner Law, Oregon income tax, basis of assets, depreciation, supplemental income, profit and loss from business, self-employment tax, farm income and expenses, credits, capital gains and losses, sales and exchanges, supplemental gains and losses, personal residence sales, installment sales, other taxes and payments, examination of returns and appeal rights, and interview techniques. An appendix includes an extensive glossary; checklists of income and deductible and nondeductible items, investment credit, and energy credit; information for armed forces personnel, farmers, and older taxpayers; automobile expense deductions, losses, and adjusted gross income deductions; Oregon Income Tax Services Law and Code of Professional Conduct; information circulars; and the Oregon individual income tax guide (1981). (YLB)

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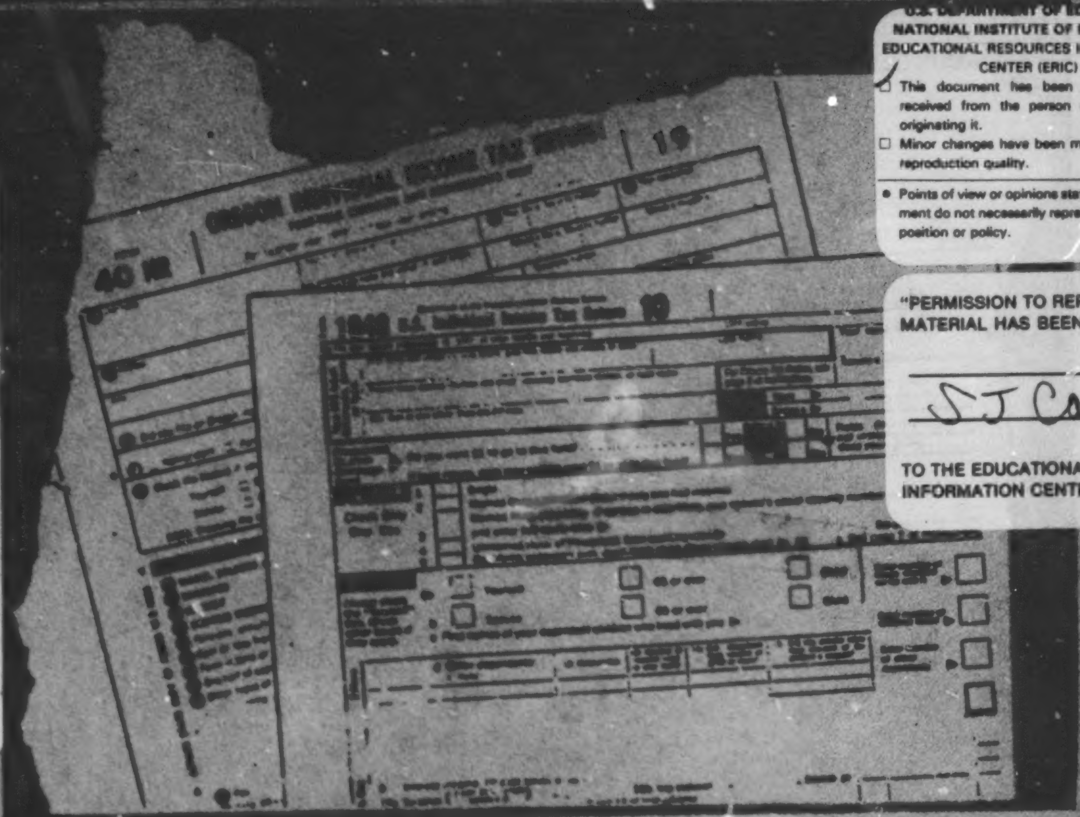
ED222734

Oregon & Federal Basic Income Tax Return Preparation

State: Oregon
Grant No: 03-650-201
Source of Funding: Curriculum $3100.00


OREGON INDIVIDUAL INCOME TAX RETURN
19
40 N
U.S. Individual Income Tax Return
19

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Student's Manual 1981

Coordinator/Editor
Donna Young

This project dated August 1982

CE 034 201

Appendix B1
(Completed by Project
Director/Principal
Investigator)

ABSTRACT

A. PROJECT DESCRIPTION

1. Project Title: Tax Preparers Manual (1982)
05-650-201

2. Principal Investigator and Organization: Stuart Shepherd
Clackamas Community College

Address: 19600 S. Molalla Ave., Oregon City, OR 97045

Telephone: (503) 657-8400

3. Special Population Target Groups
Check Primary Group(s)

Racial/Ethnic

American Indian or Alaskan Native ____
Asian or Pacific Islander ____
Black, Non-Hispanic ____
Hispanic ____
White, Non-Hispanic ____

Limited English Proficiency ____
Handicapped ____
Disadvantaged ____
Displaced Homemaker ____
Single Head of Household ____
Part to Full-Time Employment XX
Persons in Non-Traditional Vocations ____
Others ____

4. Number of Students Affected 700+ ; Number of Staff Affected 60

5. Project Objectives: The Employee and Management Development Department of Clackamas Community College will revise, update, edit, and enter into word processing, the Teachers Manual and Student Manual for instructional classes in income tax preparation. This to be completed by 6/30/82.

6. Project Procedures: The College retained Donna Young, Donna Allen, and Mabel Chase to revise, update, and edit the Teachers and Student Manuals. The firm Executive Software Inc., of Oregon City was hired to put the edited drafts of the two manuals into word processing. Executive Software presented the College with a single copy (print-ready) of each of the two manuals.

7. Project Products: One copy (print-ready) of the Teachers Manual and one copy (print-ready) of the Student Manual. NOTE: As a condition of this contract, the College agreed to publish and sell the manuals to income tax preparation instructors and students throughout the state. (Completed 9/5/82)

8. Expected Contribution or Potential Impact on Vocational Education:
There is not in print a textbook that adequately fulfills the needs of instructors and students in Income Tax Preparation classes in the State of Oregon. The manual created as a result of this contract to meet instructor and student needs.

9. Will the product be placed in a classroom within your district in the five years?

XXXYes ____No Instructors and students throughout the State will be using the manuals beginning in the Fall of 1982. These will be in use until revision is necessary.

Appendix B2
(Completed by ODE Staff)

ABSTRACT

B. PROJECT IDENTIFICATION

1. Submitted by OREGON (state)

2. State Contract No. 03-650-201 (Encumbrance No.)

3. State Project No. ______

4. Project Title: Tax Preparers Manual - 1982 Revision

5. Principal Investigator and Organization: Stuart Shephard - Clackamas Community College

6. Telephone: (503) 657-8400

7. Organization Type - Check Primary Group: College/University ______
SEA ______; LEA X ; Small Business ______;
Intermediate Service Agency ______; Non-Profit ______; Indian Tribe ______;
Other ______

8. Funding Period: 4-1-82 (start date) 6-30-82 (end date)

9. Source of Public Law 94-482:

	Amount	Fiscal Year
• Section 131 (Research)	$	
• Section 132 (Exemplary & Innovative)		
• Section 133 (Curriculum)	3100.00	FY 81
• Section ______ (Other)		

10. Level of Activity's Impact - Check Primary Level:
Secondary ___; Post-secondary X ; Adult ___; Other ___

11. Locations: Isolated Rural ______; Suburban X ; Inner City ______;
Others ______

______ (RCU Director) ______ (Date)

II. FINAL REPORT

A. Project Identification

1. Tax Preparers Manual (1982 Rev.)
2. 02-650-201
3. Clackamas Community College

B. Background

1. The purpose of this project was to revise and update the 1981 Instructors Income Tax Manual 1981 (Federal and State of Oregon). Once revised and updated, it was to be put into word processing. This was to be completed by June 30, 1982.

   As a result of this project, two manuals were developed--a Teachers Manual and a Student Manual.

2. The College hired three tax instruction experts--Donna Young, Donna Allen, and Mabel Chase--to revise, update, and edit the 1981 Instructors Income Tax Manual and submit in rough copy form to the College. The College then sent the rough copy to Executive Software, Inc., to be entered into word processing. Executive Software submitted a printed copy of the material to the College. This copy was then proofread, corrections made, and reprinted in copy-read form.

   Upon completion of the provisions of the contract, the College agreed to print both manuals and sell them to instructors and students throughout the State for use in classes for Income Tax preparers. This was accomplished on September 5, 1982.

3. N/A

C. Major Accomplishments and Outcomes

This project is of maximum importance to instructors and students involved in preparation for State examinations for tax preparers. There are no textbooks currently in print that adequately deal with Federal and State income taxes. For the past several years the State has undertaken the responsibility for developing a comprehensive manual for tax preparation classes. This project must be undertaken each year due to extensive changes in Federal and State tax law. This has proven to be a massive project each year.

This year the State asked Clackamas Community College to not only develop an updated manual for students and for teachers, but also requested that it be put on word processing so that revisions in years to come would be much simpler. This has been accomplished. As a result of this project, over 700 students and over 40 instructors of tax preparation classes throughout the State will have manuals and reference materials that will make their study of Federal and State income taxes much easier.

Furthermore, these two manuals can now be easily revised to keep them current with changes in tax laws from year to year.

D. Problems

Timing for the project was crucial. We found it very difficult to have the revisions and updating completed by June 30, 1982, due to the fact that personnel hired for the task were not available to work on the project until the latter part of May. The three people involved are professional tax preparers, and their tax work was not completed until then.

Another problem encountered was a miscalculation by the College relative to the extent of the revisions necessary. We found that necessary revisions were far more extensive than originally anticipated.

E. Evaluation

The revised and updated manuals provide objective proof of adherence to the objectives of this project. Having it in print-ready form on June 30, 1982, is evidence of compliance.

We plan to contact instructors and students using the manuals this Fall to determine the value of the manuals. This will be done by contacting teachers and students directly.

F. Summary and Conclusions

This proved to be a very time consuming and intense project. There is a tremendous amount of material that needs to be included in tax preparation manuals. It is also apparent that the manuals produced are extremely important to those wishing to be certifed by the State as qualified Income Tax preparers.

The scope of this project mandates that planning for subsequent year's manuals should begin late in the Fall of each year. This will allow for an orderly annual update process.

G. Recommendations

1. That instructors and teachers actually using the manuals be contacted during the Fall quarter to get their comments and suggestions on the effectiveness of the manuals.

2. That the annual revision process commence in January of each year rather than late May.

H. Project Follow-up and Commitment

If the current format for the two manuals is continued, the College will have them revised and updated each year, subject to the following:

1. That the College be authorized to print the manuals and sell them to instructors and students throughout the State.

2. That the College be the sole publisher of the manuals in the State.

SS:jh

SESSION 1
INTRODUCTION

FILING STATUS, FILING REQUIREMENTS AND FILING DATES

Reading Assignment: Publication 17, Part I, Chapters 1 and 2
Publication 17 1/2, Pages 3-8
Oregon 40 Pamphlet, Pages 4-7

A. VOCABULARY LIST

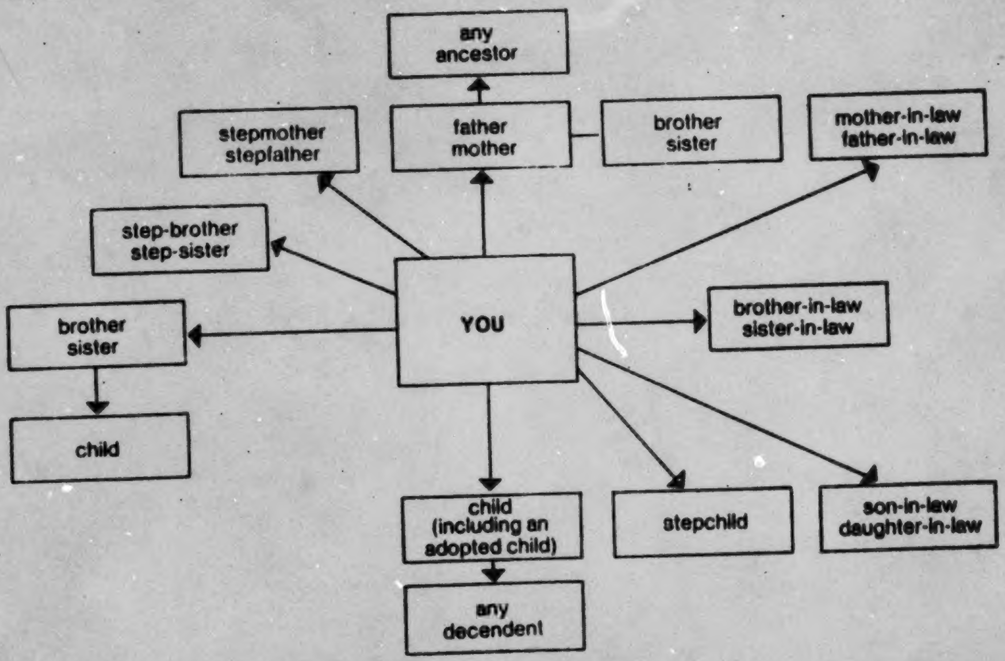
1. Adjusted gross income
2. Dual status taxpayer
3. Head of household
4. Identification number
5. Internal Revenue Service
6. Joint return
7. Living apart rule
8. Married filing separately
9. Non-resident alien (resident alien)
10. Overpayment
12. Qualifying Widow(er) (Surviving Spouse)
13. Tax forms
14. Taxable income
15. Tax year
16. Zero bracket amount

B. INTERVIEW QUESTIONS

1. Be certain to ask enough questions to determine proper filing status.
   a. Date of divorce important. Was the divorce final on 12/31?
   b. Date of marriage is important (some clients may, in fact, not be married).
2. Repeat numbers to client to guard against error.
   a. Repeat address
   b. Repeat each taxpayer's social security number
3. Ask for telephone number, ages of taxpayers, county they live in.

4. Repeat names of children from prior years' return. A child may have left home or another child may have been born. (Do not ASSUME by taxpayer's age that they do not have dependent children. They could have dependent grandchildren.

Study this chart. It shows the relatives who may qualify an unmarried taxpayer for head of household status.


any ancestor
stepmother stepfather
father mother
brother sister
mother-in-law father-in-law
step-brother step-sister
YOU
brother sister
brother-in-law sister-in-law
child
child (including an adopted child)
stepchild
son-in-law daughter-in-law
any decendent

Note that an aunt or uncle by blood is included, but not the spouse of that aunt or uncle and not a cousin.

C. PROBLEMS TO WORK IN CLASS OR AS HOMEWORK

Session 1
Filing Status, Filing Requirements and Filing Dates

In the following six situations, prepare form 1040A or 1040, through filing Status.

Situation 1:

Betty May Stanford, SS# 436-39-1045, is single and lives alone at 1254 Petunia Drive, Portland, OR 97222. She is a secretary for the law firm of Davis, Cramer and Bennett. She does not want to contribute to the Presidential Election Campaign Fund.

Situation 2:

David B., SS# 456-72-8932 and Anna J. Williams, SS# 375-82-6789 live at 732-15th Street, LaGrande, OR 97850. Mr. Williams retired from the post office with a civil service pension as of March 1, 1977. Mrs. Williams is a registered nurse. They each wish to contribute to the Presidential Election Campaign Fund.

Situation 3:

Dorothy Lou McKay, SS# 535-37-6968, worked as a social worker. She lives at 187 Park Drive, Bend, OR 97701. Dorothy is divorced and the mother of a four-year-old daughter, Susan, who lives with her. Dorothy is unable to claim her daughter since her ex-husband sends ample child support, but she provides more than 50 percent of the house hold expenses. Dorothy would like to contribute to the Presidential Campaign Fund.

Situation 4:

Steven L. Sims is divorced. His divorce was final January 10. 1982. He has been moving around a lot since he left his wife last October. He uses as a permanent address PO Box 719, Coos Bay, OR 97420. He wants to file separately from his wife since they are not speaking to each other at this time. His wife, Gloria lives at 102 East Street, North Bend, OR 97459. She had no income during last year. Steven's SS# is 542-73-8943. Gloria's SS# is 543-64-7892. Steven is a foreman at the Mix It Cement Company. He does not want to contribute to the Presidential Election Campaign Fund.

Situation 5:

Sarah F. Johnson, SS#358-68-8923, lives at 15794 Avenue C, Eugene, OR 97410. Sarah is a widow; her husband, David died June 15, 1980. Sarah provides more than 50 percent of the support of her three children, David Jr, Jennifer, and Brenda. Sarah works as an investment counselor. She and her husband filed a joint 1980 return. She would like to contribute to the Presidential Campaign Fund.

Situation 6:

James E. Smith, SS# 273-45-3467, and his wife, Janice B., SS# 254-52-6432, want to file a joint return. They live at 1016 10th Street, Medford, OR 97501. Mr. Smith is a carpenter. Mrs. Smith does not work outside the home. They each wish to contribute to the Presidential Campaign Fund.

D. EXERCISES: Session 1; Filing Status, Filing Requirements and Filing Dates

Would the following be required to file a federal or Oregon return? Put a "yes" or "no" on the applicable line.

	Federal	Oregon
1. Married couple, husband age 66, wife age 62, gross income $4,200.	______	______
2. Head of Household age 39, gross income $3,500.	______	______
3. 18-year-old dependent of parents. Gross income $2,200, all wages.	______	______
4. 10-year-old who receives income from a trust set up by a grandfather, gross income $1,100.	______	______
5. Married couple living apart plan to file separately.		
a. Husband age 66, gross income $2,500	______	______
b. Wife age 65, gross income $2,000	______	______
c. If they filed jointly, $4,500	______	______
6. Self-employed individual with gross receipts of $1,900 and business expenses of $1,000.	______	______
7. A 17-year-old with wages of $3,100 which he gave to his parents; they insisted.	______	______
8. A 17-year-old high school student, claimed as a dependent by her parents, who earned $940 during the year.	______	______
9. Taxpayer, 35 years old. Total income includes wages, $2,000; tips $900. Tips reported to employer.	______	______
10. Jim and Susan Jones, both 65. Total income includes social security $4,000; interest income $3,000; sale of strawberries, $1,200; expenses relative to the berries, $900.	______	______
11. Taxpayer, age 65, is blind and earned wages of $4000. Taxpayer has interest income of $1,000. Taxpayer is single.	______	______

12. Jean, a widow, received social security of $3,600 for the support of herself and her son. She had no other income. ______ ______

13. Sheryl, a student, is single. Her parents will claim her as a dependent. She earned $1,500 at odd jobs. Her employers did not withold federal or state income tax, but did withold FICA tax. ______ ______

14. Tim, 22, is a full-time student. His parents plan to claim him as a dependent. Tim had wages of $300 and interest income from a trust of $1,200. His parents provided over half of his support. ______ ______

15. Taxpayer, cocktail waitress, income $1,500, unreported tips $300, social security benefits of $5,000. ______ ______

FILL-IN Session 1

Filing Status, Filing Requirements and Filing Dates

1. Taxpayer filed a separate return. Taxpayer can within ________ years reconsider and file a joint return.

2. How many tax dollars may a husband and wife designate for the Presidential Election Campaign Fund on a joint return? ________

3. You may be considered __________ if your spouse was absent from the household for the entire year and you maintained a home for a dependent child for 8 months.

4. What filing status would be the most advantageous to you if you are single on the last day of your tax year, and your child resided in your home which you maintained for the entire year? You cannot claim the unmarried child as your dependent. ____________________________________

5. Who must file a joint return?______________________

6. Name your two choices of filing status if you marry on the last day of your tax year. ___________and___________

7. Can you round off all the figures on your return including the tax computation? __________

8. If you are divorced by a final decree on or before the last day of your tax year, you are considered ______________ for the entire year.

9. Examples of unerned income are ________ and __________.

10. List the five different ways to file (filing status).
    a. ______________________________________
    b. ______________________________________
    c. ______________________________________
    d. ______________________________________
    e. ______________________________________

11. Fill in the filing dates for the following:
    a. Calendar year businessman _____________________
    b. Calendar year farmer (no estimate was filed)______________________
    c. Businessman with a fiscal year ending 3/31__________

12. What is the filing status of Dotty Smith? She is an unmarried lady who maintains a home which is the principal abode of her dependent mother. Her mother's income is $535. She furnishes 1/3 of her mother's support, but claims her mother as a dependent under a

multiple support agreement. ______________________

13. The filing status of a taxpayer is determined as of the ______________________.

14. If a couple is filing for divorce but the divorce is not final as of the last day of the year and they are living apart, can they file a joint return? ______________________

15. What filing status is usually the least advantageous?
____

16. Household expenses include: ______________________, ______________________, ______________________, ______________________, ______________________.

MULTIPLE CHOICE: Session 1
Filing Status, Filing Requirements and Filing Dates

1. How many years may a taxpayer file as head of household provided all qualifications are met?

   a. five
   b. four
   c. no limit
   d. two
   e. one

2. How many years may a taxpayer use the filing status qualifying widiow(er) with dependent child?

   a. no limit
   b. five
   c. two
   d. one
   e. three

3. Filing status is based upon which of the following?

   a. number of dependents
   b. gross income
   c. age
   d. zero bracket amount
   e. marital status
   f. taxable income

4. Which of the following is not a requirement to qualify as a qualifying widow(er) for filing an income tax return?

   a. You have not remarried before the close of the tax year.
   b. You have a child or stepchild who qualifies as your dependent.
   c. You must have been entitled to file a joint return with your spouse for the year of death.
   d. Your spouse died within the two years preceeding the year for which the return is being filed.
   e. You own your own home.

5. Which of the following may qualify as a head of household?

   a. An unmarried individual who maintains a home which is the principal abode of a dependent mother. The mother's income is $700. The taxpayer furnished 1/3 of the mother;s support, but claims the mother as a dependent under a "multiple support agreement."

b. An individual who is legally separated from a spouse under a decree of divorce, and who, while living in Medford, maintains a home for a dependent mother in Pendleton.

c. An unmarried individual who maintains a home which is the principal place of abode of a married son who filed jointly with his wife.

d. An unmarried individual living in Eugene who maintains a home for a dependent daughter in Portland.

e. An unmarried individual who maintains a home which is the principal abode of a dependent cousin.

f. All of the above.

g. None of the above.

6. To file a joint return, a husband and wife must: (Mark more than one, if required.)

a. Be U.S. citizens or resident aliens
b. Be married on the last day of the tax year
c. Have income
d. Sign the return (except for rare exceptions)
e. Have the same accounting method
f. Have the same tax year

7. An individual who filed a return on a calendar year basis died on September 10. Taxpayer's income to date of death was $5,000. Disregarding any extensions of time for filing and the particular day of the week on which any of the dates may fall, a return reporting the $5,000 should be filed on or before:

a. September 10, 19(this year)
b. October 15, 19(this year)
c. December 31, 19(this year)
d. April 15, 19(next year)
e. none of the above

8. Mrs. White is married and has one child. Her husband deserted her last year. She has maintained a home for her son and herself for 10 months of this year then moved in with her parents. She is eligible to claim her child as a dependent on her return. What filing status will Mrs. White use?

a. single
b. married filing joint return
c. married filing separately
d. head of household
e. qualifying widow with dependent child

9. Mrs. Black's husband died in 1978. She has a dependent child, age 12, who lives with her. Mrs. Black filed a joint return with her husband in 1978 and as qualifying widow in 1979 and 1980. What filing status will she use for 1981.

a. single
b. married filing joint return
c. married filing separately
d. head of household
e. qualifying widow(er) with dependent child

10. Mr. and Mrs. Smith, husband and wife, have been separated for two years. They are not legally divorced and do not know where each other is located. What filing status will they use this year?

a. single
b. married filing joint
c. married filing separately
d. head of household
e. qualifying widow(er)

11. Mr. Jones has been a widower for two years. He has a dependent child. During 1981 Mr. Jones remarried. His new spouse is a citizen of France and came to the United States during the tax year just prior to their marriage on a permanent visa. What filing status could Mr. Jones use in 1981?

a. single
b. married filing jointly
c. married filing separately
d. Head of household
e. qualifying widow(er)

12. Mr. Johnson, a single person, furnishes over half of the cost of maintaining a home for his parents. He does not live with them and they do not qualify as his dependents. What filing status will Mr. Johnson use?

a. single
b. married filing joint
c. married filing separately
d. head of household
e. qualifying widow(er)

13. Mrs. Moore was divorced from her husband on December 31, this year. She maintains a home for herself and her deceased brother's son, Jim. Mrs. Moore is eligible to claim Jim as a dependent on her return as a result of a multiple support agreement. What filing status is available to Mrs. Moore?

    a. single
    b. married filing joint
    c. married filing separately
    d. head of household
    e. qualifying widow(er)

14. Mr. Brown, a single person, maintained a home for his son, Bob, age 20, and himself for nine months of the tax year. Bob moved into his own apartment for the last three months of the year. What filing status will Mr. Brown use this year?

    a. single
    b. married filing joint
    c. married filing separately
    d. head of household
    e. qualifying widow(er)

15. Which of the following individuals cannot qualify as a head of household?

    a. Mrs. Church who, living apart from her jusband during the entire taxable year while awaiting action on her suit for divorce, maintained a residence for her aged mother whom she supported.
    b. Mr. Puma, a bachelor, who furnished over half the cost of maintaining a separate household for his parents (both of whom qualify as his dependents).
    c. Mrs. Johns, a widow, who furnished over half the cost of maintaining a household which is the principal residence of her unmarried son who earned $1,800 during the taxable year.

16. A husband and wife file a joint return. Each as income. They owe additional tax. Who must pay the additional tax?

    a. only the husband
    b. equal amounts by husband and wife
    c. only the wife
    d. either husband or wife, or they may each pay part

17. Husband and wife are filing "Married, filing separately". How should they report their itemized deductions?

a. half on each return
b. on the return that will give them the greatest advantage
c. on the return of the taxpayer who paid for, and is entitled to claim, the deductions
d. on the return of the taxpayer with the highest total income.

18. Taxpayers filing "Married, filing separately" must:

a. itemize deductions
b. use the zero bracket amount
c. use the method of claiming deductions that is best for each individually
d. both use the same method of claiming deductions

19. What filing status does a taxpayer normally use for the year in which the taxpayer's husband or wife died, if the taxpayer does not remarry?

a. single
b. married filing separately
c. married filing jointly
d. qualifying widow(er) with dependent child

20. Circle the letter(s) of the item(s) included in cost of maintaining a household:

a. rent on an apartment
b. clothing
c. life insurance
d. food consumed in the home
e. rental or fair market value of taxpayer's home furnished as residence
f. transportation
g. property taxes
h. maid's salary

SESSION 2
EXEMPTIONS AND DEPENDENTS

Reading Assignment: Publication 17, Part 1, Chapter 3
1040 Instruction Pamphlet, Pages 3-7

VOCABULARY

- Child Support
- Dependents
- Divorced Parents Rule
- Exemption
- Fair Rental Value
- Foster Child
- Gross Income (Net Income)
- Legally Blind
- Legally Separated
- Multiple Support Agreement
- Personal Exemption
- Student
- Support

INTERVIEW QUESTIONS

1. How old are you?
2. How old is your spouse?
3. Are you or your spouse blind?
4. Do you have any dependent children living at home?
5. What are their ages?
6. Did they earn any money during the year? How much?
7. Did you provide more than 50% of their support?
8. Do you have any other dependents?
9. Did they live in your home all year?
10. How are they related to you?
11. If they did not live with you, where did they live?
12. Did the dependent earn any money? How much?
13. Did they receive any other income from any other source?
14. What did they do with their money, put it into savings?
15. If a support test is needed:
    a. How much rent did you pay?
    b. How much would you be able to rent your home for?
    c. How much do you spend on food for the month?
    d. How much are your utility bills including telephone?
    e. What would you say you normally spend per month on maintenance of your home?
    f. How many people live in your household?
    g. How much was spent on the dependent for clothes, medical, entertainment, personal grooming, etc.?

Form **2120**
(Rev. Oct. 1980)

Department of the Treasury—Internal Revenue Service

Multiple Support Declaration

For instructions see other side.

During the calendar year 19.80...... I paid more than 10% of the support of

SAMANTHA SMITH
(Name of person)

I could have claimed this person as a dependent except that I did not pay more than 50% of his or her support.

I understand that this person is being claimed as a dependent on the income tax return of SAMUEL SMITH
(Name)

1821 RIVER DR., WINDY CITY, IL 60687, and
(Address)

I agree not to claim an exemption for this person on my Federal income tax return for any tax year beginning in this calendar year.

Clarissa Cloud
(Signature)

999 | 22 | 1111
(Social security number)

APRIL 9, 1981
(Date)

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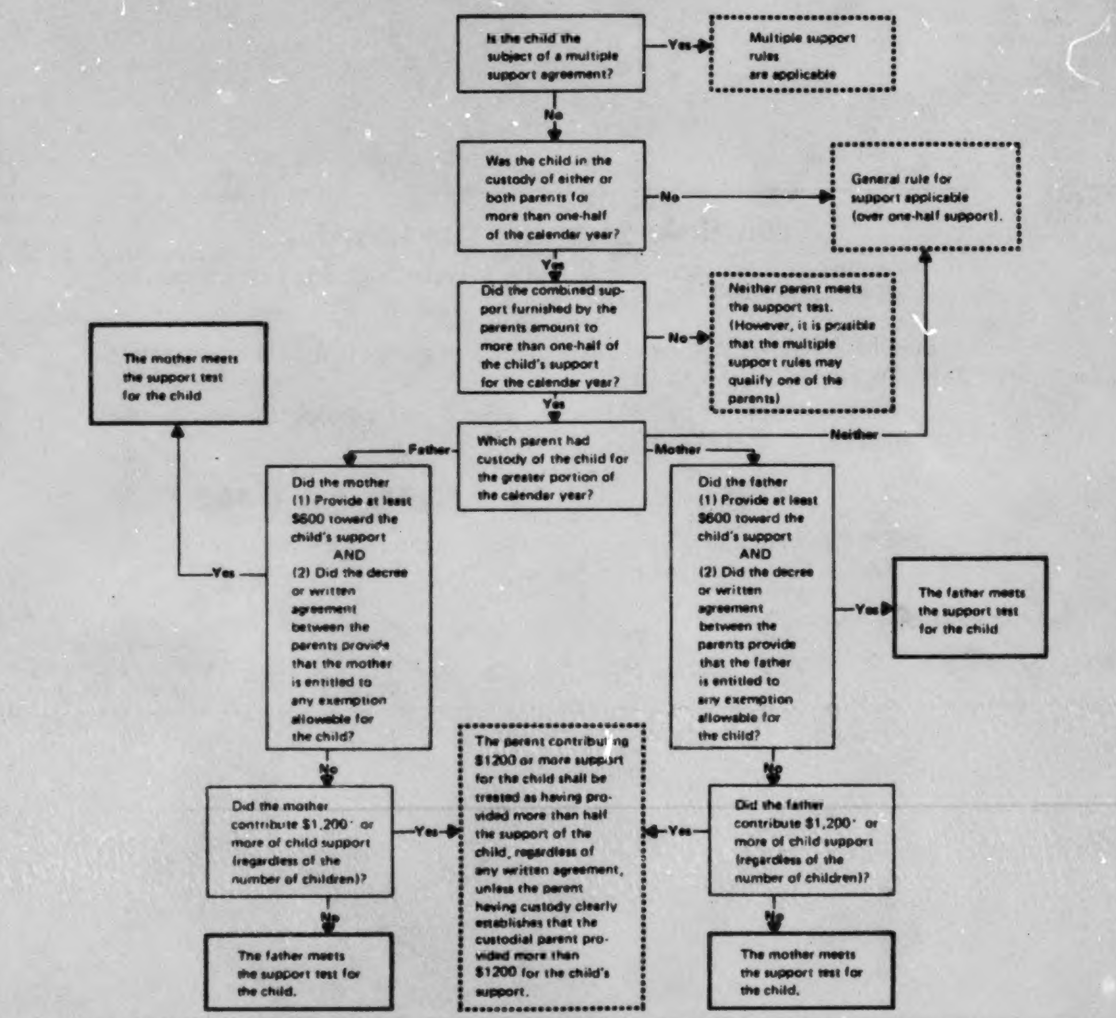
(Address)

Support Test-Child of Divorced or Separated Parents


Is the child the subject of a multiple support agreement?
Yes
Multiple support rules are applicable
No
Was the child in the custody of either or both parents for more than one-half of the calendar year?
No
General rule for support applicable (over one-half support).
Yes
Did the combined support furnished by the parents amount to more than one-half of the child's support for the calendar year?
No
Neither parent meets the support test. (However, it is possible that the multiple support rules may qualify one of the parents)
Yes
Which parent had custody of the child for the greater portion of the calendar year?
Neither
Father
Mother
The mother meets the support test for the child
Yes
Did the mother (1) Provide at least $600 toward the child's support AND (2) Did the decree or written agreement between the parents provide that the mother is entitled to any exemption allowable for the child?
Did the father (1) Provide at least $600 toward the child's support AND (2) Did the decree or written agreement between the parents provide that the father is entitled to any exemption allowable for the child?
Yes
The father meets the support test for the child
No
No
Did the mother contribute $1,200* or more of child support (regardless of the number of children)?
Yes
The parent contributing $1200 or more support for the child shall be treated as having provided more than half the support of the child, regardless of any written agreement, unless the parent having custody clearly establishes that the custodial parent provided more than $1200 for the child's support.
Yes
Did the father contribute $1,200* or more of child support (regardless of the number of children)?
No
The father meets the support test for the child.
No
The mother meets the support test for the child.

*For each child for tax years beginning after October 4, 1978

Department of the Treasury
Internal Revenue Service

Information Guide-Exemptions for Dependents

This guide will help you determine the dependents you are entitled to claim on your Federal income tax return.

Qualifications for Dependents

Each dependent claimed must meet all of the following tests:

1. **Gross Income Test**—Received less gross income than the deductible amount allowable for a dependency exemption. If the dependent is your child who was under 19 or was a full-time student, this test does not apply.

2. **Joint Return Test**—Did not file a joint return with spouse.

3. **Citizenship or Residence**—Was either a citizen, resident, or national of the United States, or a resident of Canada or Mexico; or was an alien child adopted by and living with a United States citizen abroad.

4. **Relationship**—(a) Was related to you (or to your spouse if you file a joint return) in one of the following ways:

Child (see note below)
Stepchild
Mother
Father
Grandparent
Brother
Sister
Grandchild
Stepbrother
Stepsister
Stepmother
Stepfather

Mother-in-law
Father-in-law
Brother-in-law
Sister-in-law
Son-in-law
Daughter-in-law
The following if related by blood:
Uncle
Aunt
Nephew
Niece

or (b) was a member of your household and had your home as principal residence for the entire tax year.

Note: Includes your son, daughter, stepson, stepdaughter, or a child who is a member of your household if placed with you by an authorized placement agency for legal adoption, or a foster child who is a member of your household for the entire year.

5. **Support**—Received more than half of support from you (or from your spouse if you file a joint return). This requirement does not apply if:

1. Form 2120, Multiple Support Declaration, statements are filed with your tax return.

2. You are a divorced or separated parent entitled to use the special rules discussed later in this information guide.

Before you can determine whether you furnished over half the support for a dependent, you must determine the total support furnished by you, by the dependent, and by others. Total support for a dependent is the sum of:

1. The fair rental value of lodging furnished.

2. Items of expenses paid or incurred directly by or for the dependent.

3. A proportionate share of expenses that cannot be attributed directly to a particular individual, such as cost of food for the entire household. The total cost, not the period of time over which you furnish the support, is the deciding factor.

The following are some typical items that are includible or not includible in the determination of total support:

Items Includible in Total Support

Food
Shelter
Clothing
Medical and dental care
Medical insurance premiums
Basic Medicare benefits
School tuition, lunches, and milk
Tuition payments and allowances under G.I. Bill
Child care expenses
Armed Forces dependency allotments
Board
Haircuts
Personal hygiene expenses
Movies and other entertainment
Gifts to dependent
Recreation
Travel
Transportation costs
Church contributions
Baby-sitting expenses
Tax-exempt military quarters allowances
Armed Services academy appointment

Support received for or by the dependent under a court order or divorce decree. (This must be considered as having been so used, regardless of how spent. Arrearage payments received for child support are not considered as support payments.)

Items Not Includible in Total Support

Federal, State, local, or FICA taxes paid by a dependent on own income
Life insurance premiums
Funeral expenses
Arrearage payments of child support
Medical insurance benefits
Supplementary Medicare benefits
Scholarships received by taxpayer's child, stepchild, foster child, or legally adopted child who is a student
Payment received under the War Orphan's Educational Assistance Act of 1956 and used for the recipient's support. (This is considered a scholarship.)
Student nurse's room and board furnished by an accredited school of nursing
Value of education, room, and board provided by educational institution for a handicapped child. (This is considered a scholarship.)

Student

A student is an individual studying full time at a recognized educational institution during any 5 months of the year, or taking a full-time on-farm training course under the supervision of an accredited agent of an educational institution or of a State, county, or local government agency. For income tax purposes, a student must be your child, stepchild, foster child, or legally adopted child.

In figuring whether you provided more than half the support of a student, do not include amounts received as scholarships.

Multiple Support

If two or more persons contributed toward the support of an individual but no one of them alone contributed more than 50 percent and any one of them could claim the person as a dependent except for the support test, then any one of them who contributed more than 10 percent of the support may claim the exemption for the dependent. Each of the others must file a Form 2120, Multiple Support Declaration. These declarations must be filed with the income tax return of the person who claims the exemption.

Divorced and Separated Parents

Special rules apply to determine which of separated parents will be considered to have furnished over half the support for their children (including stepchildren). These rules apply only to parents who are divorced, legally separated, or separated under a written agreement and not filing a joint return. And the rules are further limited to the children (including stepchildren) of such parents: (a) who were in the custody of one or both of the parents over half of the year; and (b) who received over half their support for the year from one or both of the parents, and (c) who were not included in a Multiple Support Declaration filed for the year.

If all the above conditions are present, the general rule provides that the parent who had custody of the child for the greater amount of time during the year (more time than the other parent) is considered to have contributed over half the child's support.

There are two exceptions to the general rule. The parent who did not have custody of the child (or had custody for the lesser time) will be considered to have furnished over half the child's support for the year if that parent:

1. Provided at least $600 for the child's support for the year, and the decree of divorce or of separate maintenance (or a written agreement between the parents) states that that parent is entitled to the exemption, or

2. Provided $1,200 or more for the child's support (or for the support of each child, if more than one) for the year and the parent who had custody (or had custody for the longer time) cannot prove that he or she furnished more for the child's support than the other parent furnished.

Any amounts spent for the support of a child or children are to be treated as received from the parent who did not have custody to the extent that the parent provided amounts for child support.

Custody is normally determined by the terms of the most recent decree of divorce or separate maintenance, or subsequent custody decree, or, if there is no decree, by written separation agreement.

Form **2038** (Rev. Sept. 1980)	Department of the Treasury—Internal Revenue Service **QUESTIONNAIRE—EXEMPTION CLAIMED FOR DEPENDENT**	In reply refer to
Names of taxpayers	Name of dependent as shown on the return	Taxable year ended

The information requested on this questionnaire is needed to support the exemption for a dependent claimed on your Federal income tax return. Please complete this form by giving information about the dependent named above. The attached information guide contains tests for claiming dependents and other helpful instructions.

PART I

1. Full name of dependent

2. Was dependent a citizen, resident, or national of the United States, or a resident of Canada or Mexico during the year? ☐ Yes ☐ No

3. Relationship of dependent to you

4. Dependent's age at end of taxable year

5. Number of months dependent lived with you during year → *If the dependent lived with you less than 12 months, please complete item 6. below.*

6. Names and addresses of others with whom dependent lived *(If dependent entered or left the Armed Forces during the year, show "AF" and date of entry or discharge.)*	Relationship to dependent	Number of months

7. Was dependent married during any part of the year? ☐ Yes ☐ No *(If Yes, complete items 8 and 9.)*

8. Name and address of dependent's spouse

9. Did dependent file a joint income tax return with spouse? ☐ Yes ☐ No

PART II — Complete this part only if the exemption claimed is not for your child.

10. If dependent was a minor, give names and addresses of dependent's parents *(If dependent's parents are not living, write "Deceased" and show dates of death in the spaces provided below.)*

a. Mother's name and address

b. Father's name and address

▲ De[illegible]t Perforation ▲

PART III — Complete this part only if the exemption claimed is for your child.

11. If the dependent was 19 or older, was dependent a full-time student? ☐ Yes ☐ No *(If Yes, complete items a, b, and c.)* ►

a. Name and address of school

b. Dates of school attendance: From To

c. Dependent attended ☐ Day school ☐ Night school

12. Did you and the other parent of the dependent file a joint return for the year shown above?

☐ Yes ☐ No *If Yes, skip questions 13 and 14 and complete the parts on the back of this form.*
If No, complete the remaining questions on both front and back of this form.

13. Name and address of other parent of dependent

a. Amount you contributed to the support of dependent *(Do not include arrearage payments for earlier years.)*

$ ....

14. Were you and the dependent's other parent divorced, legally separated, or separated under a written separation agreement for any part of the year shown above?

☐ Yes ☐ No

If Yes, does the decree of divorce or separate maintenance, or written agreement, state which parent can claim an exemption for the dependent?

☐ Yes ☐ No

If Yes to either question, complete items a, b, and c below, and attach a copy of any decree or agreement under which support payments were made or that states which parent can claim an exemption for the dependent.

If No to both questions, do not complete items a, b, and c below. Show amount other parent contributed to the dependent's support:

$ ____________

(Do not include arrearage payments for earlier years' support.)

a. Date of separation

b. Date of divorce

c. Was the child in your custody during the taxable year? If Yes, complete item d. ☐ Yes ☐ No

d. Show period of custody:
From ____________, 19___, to ____________, 19___.

Return This Part to IRS

PART IV – Include in this part only the income and expenses for the part of the year the dependent lived with you.

15. Did dependent receive any income, such as wages, interest, dividends, pensions, rents, social security, welfare? ☐ Yes ☐ No
(If Yes, please complete items a, b, c, and d, below.)

	Gross Amount	Source
a. Income	$	
	$	
	$	
	$	
	$	

b. Amount of the dependent's income used for his or her support	$
c. Amount of the dependent's income used for other purposes	$
d. Amount of dependent's income saved	$

Expenses for entire household
(Where dependent lived)

16. Lodging *(Complete items a or b, and item c if applicable)*	a. Rent paid	$
	b. If not rented, show fair rental value of home *(If dependent owns home, include this amount in item 31)*	$
	c. If you completed item b, show below the name and address of the owner of the home	▨
Homeowner's name and address		▨
17. Food		$
18. Utilities *(heat, light, water, etc.)*		$
19. Repairs *(not included in item 16a or item 16b, above)*		$
20. Other *(Do not include expenses of maintaining residence, such as mortgage interest, real estate taxes, and insurance.)*		$
21. Total household expenses *(Add items 16 through 20.)*		$
22. Number of persons *(including dependent)* living in household	*(Number)*	▨
23. Dependent's portion of household expenses *(item 21 divided by item 22)*		$

Expenses for dependent only

24. Dependent's portion of household expenses *(Item 23)*	$
25. Clothing	$
26. Education	$
27. Medical-Dental	$
28. Travel-Recreation	$
29. Other *(Specify)*	$
30. Total cost of dependent's support for the year *(Add items 24 through 29.)*	$
31. Amount dependent contributed for own support *(item 15b, plus amount from item 16b if dependent owns home)*	$
32. Amount others contributed for dependent's support *(include amounts by State, local, and other welfare societies or agencies.)*	$
33. Amount you contributed for dependent's support	$

34. If you are claiming the dependent under a multiple support agreement, please show the amount spent for dependent's support by each member of the multiple support group who contributed.

PART V

If the dependent did not live with you the entire year and you are unable to furnish complete information for Part IV, it will help support your claim to the exemption if the person with whom the dependent lived will either (a) complete the following Certificate, or (b) submit a signed statement that you furnished more than half the dependent's total support and the dependent was not claimed on that person's Federal income tax return.

Certificate

I certify that during the taxable year 19____, ____________________
(Name of person claiming dependent)

provided more than half the total cost of support for ____________________
(Name of dependent)

and I did not and will not claim the dependent's exemption on my Federal income tax return for the above year.

Signature Address Date

PART VI

Declaration (If a joint return, both you and your spouse must sign)

I declare I have examined the information entered on this form, and to the best of my knowledge and belief it is true, correct, and complete.

Your signature Date Spouse's signature Date

If you decide you are not entitled to claim an exemption for the dependent, please complete the withdrawal statement below.

Withdrawal Statement (If a joint return, both you and your spouse must sign)

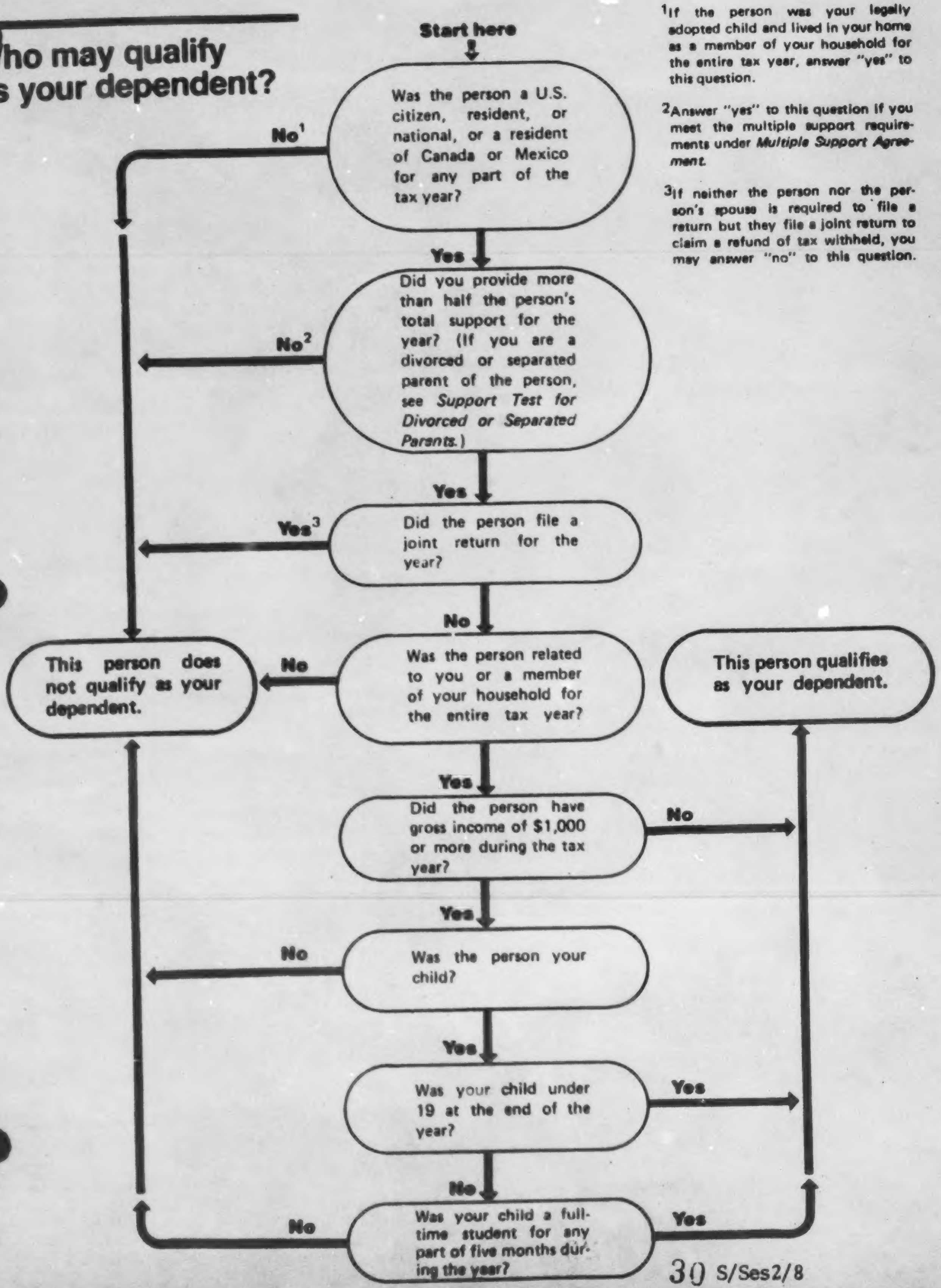
I no longer believe I am entitled to claim an exemption for ____________________
(Name of dependent)

and I withdraw my claim to this exemption. Please make the necessary adjustments to my income tax return for the year shown on the other side of this form.

Your signature Date Spouse's signature Date

S/Ses2/7

Who may qualify as your dependent?


Start here
Was the person a U.S. citizen, resident, or national, or a resident of Canada or Mexico for any part of the tax year?
No[1]
Yes
Did you provide more than half the person's total support for the year? (If you are a divorced or separated parent of the person, see *Support Test for Divorced or Separated Parents.*)
No[2]
Yes
Did the person file a joint return for the year?
Yes[3]
No
Was the person related to you or a member of your household for the entire tax year?
No
This person does not qualify as your dependent.
This person qualifies as your dependent.
Yes
Did the person have gross income of $1,000 or more during the tax year?
No
Yes
Was the person your child?
No
Yes
Was your child under 19 at the end of the year?
Yes
No
Was your child a full-time student for any part of five months during the year?
No
Yes

[1] If the person was your legally adopted child and lived in your home as a member of your household for the entire tax year, answer "yes" to this question.

[2] Answer "yes" to this question if you meet the multiple support requirements under *Multiple Support Agreement.*

[3] If neither the person nor the person's spouse is required to file a return but they file a joint return to claim a refund of tax withheld, you may answer "no" to this question.

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

Session 2 - Exemptions and Dependents

Situation 1:

Duane B. (SS# 110-88-6906) and Vivian H. (SS# 096-89-0118) Jones want to file a joint return. Duane is a lawyer and his wife is a secretary. John Smith, age 74, single and father of Vivian, lived the entire year with Duane and Vivian, as do their two children, Mary and Joe. John received social security benefits of $2,450 during the year. John spent $300 for clothing; $225 for recreation;$425 for medical insurance and doctor bills; $201 in donations to his church; $50 for personal grooming; $199 for transportation; he also gave Christmas gifts of $200; and placed the remaining amount in his savings account. Duane paid $175 in dental bills for John. Duane also paid the following expenses: rent, $320 monthly; $120 monthly for utilities; and food $320 monthly. Prepare a support statement for the Jones'and fill in the heading and lines 1-6E on their form 1040. They both want to designate $1 of their tax to the Presidential Election Campaign Fund. They live at 201 Damon Road, Ashland, OR 97520.

Situation 2:

Bill S. and Karen L.Dayne of 1510 West Taylor Road, Klamath Falls, OR 97601,want to file a joint return. Jenny age 8, and Kenneth age 6, both Karen's children by a previous marriage, lived with them for the entire year. Karen received child support of $100 monthly per child from her former husband, Jed Sampson, who is now living at 112 North 4th Street, San Jose, CA. Karen used the entire amount of child support for necessary expenses of the children. Bill and Karen spent $276 monthly for rent, $86 monthly for utilities and $235 monthly for food. Expenses for Jenny: $350 for clothing; $76 for medical expenses; $100 for summer camp, $210 for child care expenses; $75 for recreation; $16 for church. Expenses for Kenneth were: $275 for clothing; $35 for dental bills; $85 for recreation; $60 for education; $15 for church, $145 for child care expenses and $75 for summer camp. Prepare a support statement for the Daynes and fill-in lines 1-6E on their form 1040. Bill's SS# is 530-70-8950; he is a carpenter. Karen's SS# is 450-60-7005. She is a housewife. They do not want to contribute to the Presidential Election Campaign Fund.

Situation 3:

Jerry A. and Katherine E. Jared lives at 112 Crater Drive, Grants Pass, OR 97526. Jerry is a mechanic for the Fly High Flight Training Institute, while Katherine is a telephone operator for the Mason Telephone System. His SS# is 500-42-3407. Her SS# is 509-22-7844. Jerry's unmarried sister, Sarah Jared, age 33, lived with Jerry and Katherine the entire year as did their two dependent children, Paul and Teresa. Sarah collected state unemployment compensation of $1,150 and earned net wages of $275 as a cook. She used this money for her support. Sarah's expenses were as follows: Church contributions $112; transportation $210; medical and dental bills $264; clothing $368; personal grooming $95; and recreational expenses of $375. Household expenses which Jerry and Katherine paid were: rental value of their home $265 monthly; utilities and phone bills $90 monthly; food consumed $285 monthly. Prepare the support statement and the heading and lines 1-6E on the Jared's form 1040. Jerry wants to designate $1 for the Presidential Election Campaign Fund, but Katherine does not.

FILL-IN: SESSION 2
Exemptions and Dependents

1. Name three different types of personal exemptions:_____________,_______________and________________.

2. What is the largest number of personal exemptions that may be claimed: On a joint return__________, on a separate return_____________.

3. Do you have to be blind for the entire year to claim an exemption for blindness on your return? _________.

4. If a taxpayer is totally blind, must a statement from the doctor be attached to the return? _______ Explain:____.

5. Explain the term "legally blind":____

6. A calendar year taxpayer must be 65 by what date to claim the 65 or over exemption? ______________________________.

7. How many personal exemptions do the following have?

   _____ a. Mr. Olden became 66 on Nov. 1. He and his wife (who is 55 and blind) reported taxable income of $80,000 and claimed dependency exemptions for their two children on their joint return for the fiscal year ended June 30.

   _____ b. Mr. and Mrs. White filed a joint return. The husband is 66 and has good eyesight. The wife is 64 and blind.

   _____ c. A husband and wife are not filing jointly. The husband is 66 and has good eyesight. The wife is 65 and blind. She has no income subject to taxation and is not a dependent of another. How many exemptions on the husband's separate return?

   _____ d. Husband and wife are filing a joint return. Both have gross income, are under 65 and have good eyesight. How many exemptions can they claim?

   _____ e. Husband and wife are filing separately. Both have gross income, are under 65, and have good eyesight. How many exemptions can the husband claim?

She

______ f. Husband and wife are filing jointly. Husband is blind and 87. Wife is 64 and has good eyesight.

______ g. Husband and wife are filing a joint return. Husband is 58 and has good eyesight. Wife is 54 and is blind. They have a dependent sister living with them who is 74 years old and blind.

8. The following case studies must meet all five tests for dependency. If they meet all test write yes; if they fail one or more tests, write in the initials of the test or tests they failed to meet.

Initials: HR = Household/Relationship test
S = Support test
JR = Joint Return test
C = Citizenship test
GI = Gross Income test

______ a. Mother-in-law, citizen of Mexico and lived there. Taxpayer furnished more than 50% of support. She had $500 gross income, and is not married.

______ b. Cousin, has never lived with taxpayer, U.S. citizen, taxpayer furnished full support. The cousin has no income and is not married.

______ c. Daughter, U.S. citizen, taxpayer furnished 55% support. She had $1,250 gross income, is 21 years old and full-time student at State University.

______ d. Half-brother, U.S. citizen, taxpayer furnished 60% of support, gross income $1,050, not married.

______ e. Nephew of taxpayer's spouse. Taxpayer and spouse are filing separate returns. Nephew didn't live with them, U.S. citizen, taxpayer furnished 80% support, gross income $380, not married.

______ f. Mother, who is not a U.S. citizen and lives in Bonn, Germany. Taxpayer was the sole support of mother for the taxable year.

_____ g. Taxpayer supplied more than 50% of the support of his ex-wife's mother, who lived alone in an apartment during the whole year. May he claim this lady, who had no income during the year, as a dependent?

_____ h. Foster child who resided as a member of the household for the entire taxable year. Foster child has no income. Taxpayer supplied 75% of support.

_____ i. Taxpayer provides more than half of the support of his brother, who earns $500 in wages during the year, and receives $500 in unemployment insurance. The brother is unmarried.

9. When may a foster child be considered a dependent?____.

10. Total support includes the following items:

________________, ________________, ________________,
________________, ________________, ________________,
________________, ________________, ________________,
________________, ________________,

11. Uncle Bill is supported by Tom, Betty and Sally. Each contributed the following for Uncle Bill's support:

Uncle Bill = $1,500 Betty = $500
Tom = 2,000 Sally = 1,000

Assuming there is a multiple support agreement signed by Tom, Betty and Sally, which of the above may claim Uncle Bill? ______________________.

12. In which of the columns do the following items belong?

		Cost of maintaining a household	Item of Support	Does Not Apply
a.	Vacation (Example)	__NO__	_YES_	_n/a_
b.	Food	______	______	______
c.	Life Insurance	______	______	______
d.	Medical Expenses	______	______	______
e.	Fair Rental Value of Home	______	______	______
f.	Interest on Home Mortgage	______	______	______
g.	Car	______	______	______
h.	Maid Service	______	______	______
i.	Insurance on Home	______	______	______
j.	Clothing	______	______	______
k.	Education	______	______	______
l.	State Income tax payment	______	______	______
m.	Funeral Expenses	______	______	______

13. Jack Jones files a separate return. He married Joy Jones in October and Joy is not filing a return. Joy only had a $120 interest income last year. How many exemptions may Jack claim? Both are under 65. ______________.

14. My husband supports my uncle who lives in Seattle. On a joint tax return can we claim my uncle? _______. If we file separate returns can my husband claim my uncle? ______. If my uncle lived with us until August when he moved to Seattle can my husband claim him on his separate return?__________.

15. State the amount of dollar deduction for exemptions in each of the following:

_____ a. Roy Stien, 43, married Cathy, 35, in November. Cathy had $40 in interest from a savings account. Roy earned $15,000 during the year and filed a separate return.

_____ b. What would be your answer to (a) If cathy had no income and was not a dependent of another?

_____ c. What would be your answer to (a) If Roy and Cathy filed a joint return?

_____ d. Ivan Lane, 65, filed a joint return with his wife, May, 56. He supports May's widowed mother, 77 and blind, who is a citizen and resident of Turkey.

16. Mac Black, a widower, supports his four children all under 19 years of age, and his 66-year-old mother. One of the children earned $1,200 in summer employment. His mother has no other income other than her social security of $900. Mac provides more than 50% support for each. How many exemptions may he claim? __________.

17. Ben Blair, 68 files a joint return with his wife Susan, 64. Ben supports Susan's widowed mother who is 85 and blind and who is resident and citizen of England. How many exemptions may Ben claim? __________.

18. Dick Thomas provided more than half the support for the following people.

What filing status should Dick use? ___________.
How many exemptions may he take? ______________.

a. His wife Nancy who had no income of her own and who died on May 1.
b. He supported his wife's sister who was single and had no income.
c. Both his parents. Tom's father earned $1,060 from salary but filed a separate return. His mother had no income.
d. John Thomas, his unmarried brother, who, for the entire year, was a citizen and resident of Canada but had no income.

19. How many exemptions may the following taxpayers claim?

______a. Bob and Tina Smith (husband and wife) are in their 40's and have a son age 20. The son is not a student. He earned $1,200 during the year. They provide more than 50% of his support.

______b. Agnes, age 70, is blind and lives alone.

______c. Tim, age 40, has his father, age 66, living with him. His father receives social security and a veteran's benefit. The two pensions total$4,500. Tim earned $5,000. They pooled their funds for living expenses.

20. Clement, age 50, was widowed in 1971 and has a daughter, age 18, living at home. She graduated from school in June. She earned $2,500 after graduation and put most of the money into her savings account. She earned $1,000 interest from the savings account but made no withdrawals. Clement worked for Georgia Pacific and earned $14,000. How will Clement file and how many exemptions may he claim? ________________ and ____________.

21. May I claim Bill Jones, my half-brother as my dependent? Bill is a U.S. citizen, I furnished 60% of his support, he is not married and only had an income of $1,000?______________________________.

22. My husband supports my son by my previous marriage. My son lives in Los Angeles. Can we claim my son if we file jointly? ________________. My son lived with us all year until he moved to L.A. the first of December. Can my husband claim him on a separate return?___________________.

23. Martin Allen was divorced in May of the current taxable year. He continued to support his wife after the divorce, and she remained unmarried through the end of the taxable year. She has no other income. May Allen claim an exemption for his former wife on his income tax return for the current taxable year?_____________.

24. Eight-year-old Jason's parents were divorced prior to the taxable year, and Jason has since lived with his mother, who has not remarried. The decree of divorce is silent about which parent is entitled to claim Jason as an exemption. Jason's father contributed $1,425 for Jason;s support during the taxable year. Jason's mother can establish that she provided $920 of her own funds for his support during the year.

_____a. How many exemptions may Jason's mother take on her income tax return?

_____b. Does Jason's mother qualify as head of household?

25. Ned and his girlfriend lived together in Oregon all year. They are not married and the girlfriend has no income. What is Ned's filing status and how many exemptions may he claim? ______________and________________.

SESSION 3

GROSS INCOME

Reading Assignment: Publication 17, Chapter 7,8,9,10,13
1040 Instruction Pamphlet - Pages 8-10
Schedule B - Page 20
40 Instruction Pamphlet - Pages 19-22
Reference: Publication 17 1/2

NOTE: Pensions and annuities, rental income, covered in Session 11

VOCABULARY

1. Bequest (gift by will of personal property)
2. Constructive receipt
3. Convenience of employer (meals, lodging)
4. Devise (gift by will of real property)
5. Dividend
    a. Ordinary dividends
        1. Qualifying
        2. Nonqualifying
    b. Capital gain dividends
    c. Return of capital dividends; e.g.,Public Utilities
    d. Tax-free distributions
    e. Domestic vs. foreign corporation
    f. Liquidating dividends
6. Earned income
7. Fair market value
8. Fellowship grant
9. Form 1099
10. Form W-2
11. Gift
12. Gross income
13. Inheritance
14. Interest
15. Mutual fund
16. Patronage dividend
17. Recovery exclusion
18. Scholarship
19. Stock option/stock dividend
20. Sub-chapter S corporation
21. Tax-exempt income

INTERVIEW QUESTIONS:

1. The general question should always be asked: "Do you have any other income?" Also, the questioning should be directed to the taxpayer's occupation i.e., tips for a waitress, awards and prizes for a salesman.

2. Workpapers should note the general types of questions asked of client and their "yes" or "no" replies.

Reprint from I.R.S. Publication 525

State income tax refunds and other amounts you recover after having deducted them in previous years—bad debts, medical expenses, taxes, losses, etc.—generally must be included in your income in the year you recover them. However, you may exclude the recovery from income up to the amount of the deductions that did not decrease your tax in the year you deducted them.

You may figure the amount of your state income tax refund or other recovered amount to include in income by using the worksheet shown in this publication. If you did not deduct in the previous year any state income tax or other amount that you recovered, do not include any of the recovery in income this year.

Example 1. When you filed your 1979 state income tax return in April 1980, you paid $200 as the balance due on the tax liability. During 1980 your employer withheld $800 from your salary for 1980 state income tax. On your federal income tax return for 1980, you deducted the total $1,000 of tax paid. Your other itemized deductions were more than your zero bracket amount, and therefore the full state income tax deduction decreased your federal income tax. In 1981 you received a refund of $150 as overpayment of your 1980 state income tax. You must include the entire $150 refund in income on your 1981 federal income tax return.

Example 2. The facts are the same as in Example 1 except that your other itemized deductions were $100 less than your zero bracket amount. Therefore, only $900 of the $1,000 state income tax deduction actually decreased your federal tax for 1980. You may exclude $100 of the refund from income ($1,000 minus $900). Only the remaining $50 of the refund is income on your 1981 federal income tax return.

Example 3. You received hospitalization insurance payments in a later year than the one in which you took your medical expense deduction. You had adjusted gross income in 1980 of $10,000. During that year you paid medical insurance premiums of $200 and other medical expenses (other than $90 for medicines and drugs) of $800. You deducted $700, figured as follows:

Half of medical insurance premiums.....		$100
Other medical expenses	$800	
Remaining half of medical insurance premiums..........	100	
Total..........	$900	
Minus: 3% of adjusted gross income	300	
Balance		600
Total medical expense deduction		$700

Your itemized deductions other than medical expenses were more than your zero bracket amount, so that the full amount of your medical expense deduction decreased your tax.

In 1981 you collected $400 insurance as reimbursement for part of your 1980 medical expenses. If you had collected the insurance in 1980, your deduction for medical expenses would have been reduced to only $300. Thus, you include the entire reimbursement of $400 in income in 1981.

Example 4. You are a member of a credit union. During 1980 you paid $100 interest on your loan with the credit union. You deducted this amount on your federal income tax return for 1980, and the full amount decreased your tax. Early in 1981 the credit union refunded $10 of the interest you had paid. You must include the $10 refund in your income for 1981.

Interest on any of the amounts you recover in a later year is income.

If you did not itemize your deductions in a year you paid medical expenses, taxes, or other items deductible on Schedule A (Form 1040), recovery of those amounts in a later year is not income.

If the refund or other recovery and the deductible tax, expense, bad debt, loss, etc., occur in the same year, the refund or recovery reduces the deduction and is not reported as income.

Refunds of federal income taxes are not income. But you must include interest on refunds in income.

Alcohol fuel credit. You must include in your income the amount of the credit for alcohol used as fuel that you may claim for the tax year.

If you had to repay, during your tax year, an amount that you had included in income in an earlier year because at that time you thought you had an unrestricted right to it, you may deduct the amount you repaid from your income for this year.

The type of deduction in the year of repayment depends on the type of income you included in the earlier year. For instance, if you repay an amount that you previously reported as a long-term capital gain, deduct the repayment as a long-term capital loss. If you repay *Advance commissions and other earnings,* see the discussion earlier in this publication.

If the amount you repaid was $3,000 or less, deduct it from your income on the same form or schedule on which you previously reported it. For example, if you reported it as a capital gain, deduct it on Schedule D (Form 1040).

If the amount you repaid was more than $3,000, you should figure your tax two ways:

1) Figure your tax for this year claiming a deduction for the repaid amount.
2) Figure your tax for this year without deducting the repaid amount. Then reduce this tax by the amount your tax in the earlier year was increased because you included in income the amount you later had to repay.

Your tax is the amount in (1) or (2), whichever is less. If Method (1) results in less tax, deduct the amount repaid on the same form or schedule on which you previously reported it. If Method (2) results in less tax, claim a credit on line 61, Form 1040, and write "I.R.C. 1341" in the margin to the left of line 61.

Example. For tax year 1980 you were married with no dependents and you reported your income on the cash method. You filed a joint return with your spouse, claimed two exemptions, and reported adjusted gross income of $64,000. Your taxable income was $55,200. Your return

State Income Tax Refund Worksheet

(May be used for other recovered amounts that you deducted)

1. Adjusted gross income for previous year		$ ______
2. Total itemized deductions for previous year	$ ______	
3. State income tax (or other) deduction taken in previous year	______	
4. Subtract line 3 from line 2	$ ______	
5. Zero bracket amount for previous year	______	
6. Subtract line 5 from line 4. If zero or less, enter zero		______
7. Subtract line 6 from line 1		$ ______
8. Tax Table income for previous year (from line 34, Form 1040)	$ ______	
9. Largest amount of income on which the tax is zero from the Tax Table for previous year, based on your filing status and number of exemptions for that year	$ ______	
10. Enter the larger of line 8 or line 9		______
11. Subtract line 10 from line 7. This is your tax benefit from the deduction in the previous year		$ ______
12. State income tax refund (or other recovery) received this year		$ ______
13. Amount from line 3	$ ______	
14. Amount from line 11	______	
15. Subtract line 14 from line 13. This is your recovery exclusion		______
16. Subtract line 15 from line 12. Include the result in income. If a state income tax refund, enter it on line 9, Form 1040. If zero or less, enter zero		$ ______

showed a tax liability of $17,326 which you paid. In 1981 you had to pay back $5,000 included in your 1980 gross income under a claim of right. Your marital and filing status are the same in 1981 as in 1980, and your taxable income after taking normal deductions is now $60,000; your tax liability for this amount would be $19,432. Under Method (1), you would take an additional $5,000 deduction on your 1981 return for the amount you repaid and figure your tax liability on $55,000; which is $17,013. Under Method (2), you figure the amount of the decrease in tax for 1980, which you may claim as a credit on your 1981 return, as follows:

Taxable income for 1980 on which tax previously determined was based	$55,200
Minus: Income included under claim of right	5,000
Taxable income as adjusted	$50,200
Tax on $50,200	$14,876
Amount of decrease in tax for 1980:	
Tax previously determined	$17,326
Tax as refigured	14,876
Decrease in tax	$ 2,450

Your tax liability under Method (2) is $16,982 (your normal 1981 tax liability of $19,432 minus the $2,450 credit for the decrease in 1980 tax as figured here).

You must use Method (2) to figure your 1981 tax because the tax liability figured under Method (2), $16,982, is less than $17,013, the liability figured under Method (1).

If, by using Method (2), your credit is more than your tax, the excess will be refunded to you or applied to your account.

Reprint from I.R.S. Publication 796
(12/1980)

You may deduct state, local or foreign income taxes withheld from your salary. You may also deduct estimated payments made under a pay-as-you-go plan of the state or local government. And you may deduct payments on taxes for an earlier year. You may deduct the taxes in the year you pay them or in the year they are withheld.

If you receive a refund of these taxes in a later year, you must include in gross income, in the year you receive it, the part of the refund that reduced your federal income tax in the earlier year. This includes refunds on taxes that were overwithheld, miscalculated, or recomputed as a result of an amended return.

If you did not itemize deductions in the earlier year, you do not have to include any part of the refund in income.

The following examples illustrate the amount of the refund that you would include in gross income. The persons in the examples use the cash method of accounting (explained in Chapter 7) and file their returns on a calendar year basis. In 1979, they paid state income taxes, which they deducted as itemized deductions on their returns for 1979. In 1980, they received refunds of these state income taxes.

Note: Tax table income is generally the difference between adjusted gross income and excess itemized deductions (defined earlier in this chapter). It is the amount used to find the tax in the tax tables. Tax table income is discussed in Chapter 12.

Example 1. Mike and Joan Stuart filed joint federal income tax returns for 1979 and 1980. For 1979 their adjusted gross income was $20,000, their state income tax deduction was $2,000, and their other itemized deductions were $5,000. In 1980, the Stuarts received a cash refund of $1,000 of the state income tax paid in 1979.

		Tax table income for 1979		Tax table income for 1979 without deduction for state income tax
Adjusted gross income		$20,000		$20,000
Itemized deductions	$7,000		$5,000	
Zero bracket amount	(3,400)		(3,400)	
Excess itemized deductions		(3,600)		(1,600)
Tax table income		$16,400		$18,400
State income tax deduction for 1979				$2,000
Tax table income for 1979 without deduction for state income tax			$18,400	
Tax table income for 1979			(16,400)	
Tax benefit (amount of state income tax deduction that resulted in a reduction of 1979 tax)				(2,000)
Recovery exclusion				$ -0-

Because the entire $2,000 state income tax deduction reduced the Stuarts' 1979 federal tax, they must include the entire $1,000 refund in their 1980 gross income.

Example 2. Tim and Mildred Johnson filed joint federal income tax returns for 1979 and 1980. For 1979, their adjusted gross income was $30,000, their state income tax deduction was $3,000, and their other itemized deductions were $2,500. In 1980, the Johnsons received a cash refund of $900 of the state income tax paid in 1979.

		Tax table income for 1979		Tax table income for 1979 without deduction for state income tax
Adjusted gross income		$30,000		$30,000
Itemized deductions	$5,500		$2,500	
Zero bracket amount	(3,400)		(3,400)	
Excess itemized deductions		(2,100)		(-0-)
Tax table income		$27,900		$30,000
State income tax deduction for 1979				$3,000
Tax table income for 1979 without deduction for state income tax			$30,000	
Tax table income for 1979			(27,900)	
Tax benefit (amount of state income tax deduction that resulted in a reduction of 1979 tax)				(2,100)
Recovery exclusion				$ 900

The Johnsons do not include any part of their $900 refund in their 1980 gross income.

1 Control number	22222	For Official Use Only		
2 Employer's name, address, and ZIP code		3 Employer's identification number		4 Employer's State number
		5 Stat. employee ☐ Deceased ☐ Pension plan ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Correction ☐ Void ☐		
		6 *		7 Advance EIC payment
8 Employee's social security number	9 Federal income tax withheld	10 Wages, tips, other compensation		11 FICA tax withheld
12 Employee's name (first, middle, last)		13 FICA wages		14 FICA tips
15 Employee's address and ZIP code		16 Employer's use		
		17 State income tax	18 State wages, tips, etc.	19 Name of State
		20 Local income tax	21 Local wages, tips, etc.	22 Name of locality

Form **W-2 Wage and Tax Statement 1981** ▼

Copy A For Social Security Administration
• See instructions for Forms W-2 and W-2P

Department of the Treasury
Internal Revenue Service

For Official Use Only

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Statement for Recipients of 1981

Miscellaneous Income

Copy A
For Internal Revenue Service Center

95 ☐

Recipient's identifying number	1 Rents	2 Royalties	3 Prizes and awards

Name ▶ Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099–MISC**

Department of the Treasury—Internal Revenue Service

For Official Use Only

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Statement for Recipients of 1981

Nonemployee Compensation

Copy A
For Internal Revenue Service Center

83 ☐

Recipient's identifying number	1 Fees, commissions, and other compensation	▨

Name ▶ Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

For instructions on completing this form, see "Instructions for Form 1096."

6

Form **1099–NEC** ★GPO: 1980—O-313-113 EI 29-1116272

Department of the Treasury—Internal Revenue Service

SESSION 3 - GROSS INCOME

ASSIGNED PROBLEMS:
FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

Situation 1:

Name and address of taxpayers:

James L. and Mary M. Timms   Phone: 221-8399
12 Monty Avenue
Mount Vernon, OR 97095   Grant County

Social Security numbers: (H) 542-13-3013
(W) 543-31-0313

Ages: (H) 65 (W) 61

Occupations: (H) Traffic Manager
(W) Office Manager

Living with taxpayer: 2 children, Daniel and Jane (Both were listed as exemptions on last year's return).

Mr. Timms wants to designate $1 for Presidential Election Campaign Fund. She does not.

The Timms also contribute about $2,800 towards the support of Mary's mother, Jen Ren, who is widowed and lives alone in a Portland apartment. Jen received $1,800 in social security and a $1,500 fully-taxable pension from a former employer. She was able to put $1,100 of the pension benefits in a savings account.

James received $14,000 in wages from RTC Co. Withheld was $2,400 federal income tax, $850 Oregon income tax, $931 FICA. Mary received $8,700 in wages from T.T. Rug Co. Withheld was $1,000 federal income tax, $300 Oregon income tax, and $578.55 FICA.

Daniel was 22, a full-time student and received more than one-half his support from his parents. Jane, 24, was a full-time student until her graduation in June, and received more than on-half her support from her parents. Jane married John Dunn in December; Jane and John filed a joint return.

Please complete Form 1040 and Oregon 40S.

Situation 2:

Joe R. Thomas is a Sales Manager, SS# 370-12-1212. His wife, Mary A. Thomas is a Nurse, SS# 702-00-2002. They live at 70 N Street, Bend, OR 97589.

Joe's wages are: Jones Corp. - $14,500
XYZ Corp. - $1,235

Fed. WH: $4,000

Mary's wages are: Mercy Hospital - $11,300 Fed. WH: $1,400

Other income: Dividends See 1099 DIV attached
Interest See 1099 INT attached
Series E bond interest $140

Joe and Mary would like to claim her mother who has not been able to work since March because of illness. She is 58 years old and earned $1,080. She lived with Joe and Mary all year. They provided her entire support since March.

The Thomas' would like to contribute to the Presidential Election Campaign. They have no foreign bank accounts or trusts.

Prepare a 1040 and Schedule B.

Situation 3:

John R. Jones is a laborer SS#123-45-6789. Johns wages are $8,800. Fed. WH: $950.

John is single and has no dependents. He does not want to contribute to the Presidential Election Campaign Fund. He has no foreign bank accounts or trusts.

John's dividend and interest income are on 1099's attached. Prepare a 1040 A for John.

Situation 4: Prepare 1040, 40S, and Schedule B

John R. Jones is a laborer, SS# 123-45-6789. His wife, Mary A. is a housewife, SS# 987-65-4321. They have two children, Dan and Sue. Multnomah County; Phone number: 287-9302. John's wages are: $8,800; Fed. WH $950; Oregon WH: $250. John's dividends and interest income are on 1099's attached. Mary's interest is on Schedule K-1 attached: it is from a partnership. John does not want to contribute to the Presidential Election Campaign Fund, but Mary does. They have no foreign bank accounts or trusts. They wish to contribute $1 to the Oregon Nongame Wildlife Fund.

SESSION 3
SITUATION #2

For Official Use Only

Hamiton Fund

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Statement for Recipients of **1981**

Dividends and Distributions

Copy A
For Internal Revenue Service Center

Recipient's identifying number	1 Gross dividends and other distributions on stock	2 Dividends qualifying for exclusion	3 Dividends not qualifying for exclusion	4 Capital gain distributions
92 ☐ 370-12-1212	290.00	30.00	10.00	250.00

Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

Name ▶ Joe R. Thomas
Mary A. Thomas
70 N Street
Bend, OR 97589

5 Nontaxable distributions (if determinable)	6 Foreign tax paid (if eligible for foreign tax credit)	7 Foreign country or U.S. possession

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099–DIV**

Department of the Treasury—Internal Revenue Service

Investors Fund

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Statement for Recipients of **1981**

Dividends and Distributions

Copy B
For Recipient

Recipient's identifying number	1 Gross dividends and other distributions on stock	2 Dividends qualifying for exclusion*	3 Dividends not qualifying for exclusion	4 Capital gain distributions
370.12.1212	100.00	25.00	15.00	60.00

Type or print RECIPIENT'S name, address, and ZIP code below.

Joe R. Thomas
Mary A. Thomas
70 N Street
Bend, OR 97589

5 Nontaxable distributions (if determinable)	6 Foreign tax paid (if eligible for foreign tax credit)	7 Foreign country or U.S. possession

If this form shows two or more recipients, the recipient whose Federal identifying number is shown should file a Form 1087–DIV with the Internal Revenue Service for each of the other recipients and provide each with a copy. However, a husband or wife is not required to file a Form 1087–DIV to show payments for the other.

This information is being furnished to the Internal Revenue Service.

*Please see note on back of this copy.

For Official Use Only

PIONEER SAVINGS + LOAN

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Statement for Recipients of **1981**

Interest Income

Copy A
For Internal Revenue Service Center

Recipient's identifying number	1 Interest qualifying for exclusion	2 Interest not qualifying for exclusion	3 Amount of forfeiture
92 ☐ 370-12-1212	256^{42}		

Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

▶ JOE R. THOMAS
MARY A. THOMAS
70 N STREET
BEND, OR

4 Foreign tax paid (if eligible for foreign tax credit)	5 Foreign country or U.S. possession

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099–INT** ☆ U. S. GOVERNMENT PRINTING OFFICE 1980 J313-109 13-134-8150 Department of the Treasury—Internal Revenue Service

SESSION III

Situation 3+4

Statement for Recipients of 1981

Dividends and Distributions

Copy A
For Internal Revenue Service Center

For Official Use Only

CBS Corporation

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Recipient's identifying number	1 Gross dividends and other distributions on stock	2 Dividends qualifying for exclusion	3 Dividends not qualifying for exclusion	4 Capital gain distributions
123-45-6789	180.00	180.00		

92 ☐

5 Nontaxable distributions (if determinable)	6 Foreign tax paid (if eligible for foreign tax credit)	7 Foreign country or U.S. possession

Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow.)

Name ▶ John Jones
10 E. 29th Street
Portland, Oregon 97201

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099–DIV**

Department of the Treasury—Internal Revenue Service

Session III

Situation 3+4

Statement for Recipients of 1981

Dividends and Distributions

Copy B
For Recipient

Canada International

US #

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Recipient's identifying number	1 Gross dividends and other distributions on stock	2 Dividends qualifying for exclusion*	3 Dividends not qualifying for exclusion	4 Capital gain distributions
123-45-6789	45.00	45.00		

5 Nontaxable distributions (if determinable)	6 Foreign tax paid (if eligible for foreign tax credit)	7 Foreign country or U.S. possession

Type or print RECIPIENT'S name, address, and ZIP code below.

John Jones
10 E. 29th St
Portland, OR 97201

If this form shows two or more recipients, the recipient whose Federal identifying number is shown should file a Form 1087–DIV with the Internal Revenue Service for each of the other recipients and provide each with a copy. However, a husband or wife is not required to file a Form 1087–DIV to show payments for the other.

Statement for Recipients of 1981

Interest Income

Copy A
For Internal Revenue Service Center

For Official Use Only

US National Bank

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Recipient's identifying number	1 Interest qualifying for exclusion	2 Interest not qualifying for exclusion	3 Amount of forfeiture
123-45-6789	230.00		

92 ☐

4 Foreign tax paid (if eligible for foreign tax credit)	5 Foreign country or U.S. possession

Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

Name ▶ JOHN JONES
10 E 29th ST.
PORTLAND, OR 97201

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099–INT**

☆ U. S. GOVERNMENT PRINTING OFFICE 1980 J313-109 13-134-8150

Department of the Treasury—Internal Revenue Service

Session 3 Situation 4

SCHEDULE K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.—1981

For calendar year 1981 or fiscal year
beginning ...., 1981, and ending ...., 19........
(Complete for each partner. Instructions for partners attached to Copy C.)

OMB No. 1545-0099

Copy A
(File with Form 1065)

Partner's identifying number ▶ 987-65-4321

Partner's name, address, and ZIP code

Mary Jones
10 E. 29th Street
Portland, Or. 97201

Partnership's identifying number ▶ 93-0114770

Partnership's name, address, and ZIP code

Suit & Vest Co.
Ohnrie, South Dakota

A Is partner a general partner (see page 2 of instructions)? . . . ☐ Yes ☐ No

B Partner's share of liabilities (see page 7 of Instructions):
Nonrecourse . . . . $..................
Other . . . . $

C Enter partner's percentage of:

	(i) Before decrease or termination	(ii) End of year
Profit sharing	%	%
Loss sharing	%	%
Ownership of capital	%	%

D What type of entity is this partner? ▶

E Reconciliation of partner's capital account:

a. Capital account at beginning of year	b. Capital contributed during year	c. Ordinary income (loss) from line 1	d. Income not included in column c, plus nontaxable income	e. Losses not included in column c, plus unallowable deductions	f. Withdrawals and distributions	g. Capital account at end of year

	a. Distributive share item	b. Amount	c. 1040 filers enter the amount in column b on:
Income (loss)	1 Ordinary income (loss)		Sch. E, Part II
	2 Guaranteed payments		Sch. E, Part II
	3a Interest qualifying for exclusion under section 116	1,200.00	Sch. B, Part I, line 1a
	b Qualifying interest from All-Savers Certificates		Sch. B, Part I, line 1c
	4 Dividends qualifying for exclusion		Sch. B, Part II, line 3
	5 Net short-term capital gain (loss): a Total for year ▶		Sch. D, line 3, col. f. or g.
	b From sales or exchanges after 6/9/81		See Sch. D, Part IV
	6 Net long-term capital gain (loss): a Total for year ▶		Sch. D, line 10, col. f. or g.
	b From sales or exchanges after 6/9/81		See Sch. D, Part IV
	7 Net gain (loss) from involuntary conversions due to casualty or theft:		
	a Total for year ▶		Form 4684, line 20
	b From casualties or thefts after 6/9/81		Form 4684, line 20
	8 Other net gain (loss) under section 1231:		
	a Total for year ▶		Form 4797, line 1
	b From sales or exchanges after 6/9/81		Form 4797, line 1
	9 Other (attach schedule)		(Enter on applicable lines of your return)
Deductions	10 Charitable contributions: 50%........, 30%........, 20%........		See instructions for Sch. A
	11a Payments for partner to an IRA		Form 1040, line 24
	b Payments for partner to a Keogh Plan (Type of plan ▶..........)		Form 1040, line 25
	c Payments for partner to Simplified Employee Pension (SEP)		Form 1040, line 25
	12 Other (attach schedule)		(Enter on applicable lines of your return)
Credits	13 Jobs credit		Form 5884
	14 Credit for alcohol used as fuel		Form 6478
	15 Other (attach schedule)		(Enter on applicable lines of your return)
Other	16a Gross farming or fishing income		Sch. E, Part IV
	b Net earnings (loss) from self-employment		Sch. SE, Part I or II
	c Other (attach schedule)		(Enter on applicable lines of your return)
Specially Allocated Items	17a Short-term capital gain (loss) (attach schedule):		
	(1) Total for year ▶		Sch. D, line 3, col. f. or g.
	(2) From sales or exchanges after 6/9/81		See Sch. D, Part IV
	b Long-term capital gain (loss) (attach schedule):		
	(1) Total for year ▶		Sch. D, line 10, col. f. or g.
	(2) From sales or exchanges after 6/9/81		See Sch. D, Part IV
	c Ordinary gain (loss) (attach schedule)		Form 4797, line 9
	d Other (attach schedule)		Sch. E, Part II

For Paperwork Reduction Act Notice, see page 1 of Form 1065 Instructions.

EXERCISES:

1. The items below would be included in gross income:
T (true) F (false)

Federal	Oregon	
____	____	a. $100 Christmas bonus
____	____	b. Cost-of-living allowance paid to civil service employee assigned to Alaska.
____	____	c. Severance pay
____	____	d. $10 (FMV) Christmas turkey
____	____	e. $75 withheld from employee's salary for state income tax.
____	____	f. $100 special achievement award paid to employee.
____	____	g. Nonbusiness meals furnished by a nearby restaurant
____	____	h. Free vacation given to an employee as an award for a good sales record.

2. Sarah Model's salary was $17,052, from which $2,000 was withheld for federal income tax, $700 for Oregon income tax, $1,133.96 FICA, and $200 for medical insurance. What is her gross income?

3. Mark Miner received the following income during the year:

Salary form ZYX Corp. - $5,000
Salary from ABC Corp. - $5,000
Incentive award from ABC Corp. - $200
FMV of a Christmas turkey - $5
Interview expense paid by ABC Corp.
(Costs equaled expense allowance) - $100

What is Mark's gross income?

4. Martin Reporter worked for the Montrose Mill. On July 1, the mill employees went on strike. Martin belonged to the union that called the strike. The union paid all members $80 a week in strike benefits for the duration of the strike. The striking union members did not have to prove financial need. Should Martin include the $80 a week payment in gross income?

5. Carla Photographer was paid $16,000 in wages from the Ace Repair Service. From her wages Carla had withheld $1,64 in federal income tax, $694 in Oregon income tax, $1,064 in FICA, and $52 in union dues. What is her gross income?

6. Steve Miner worked for A and B Construction Company. The company paid the premiums on a $100,000 insurance policy covering him. A and B Construction Company was the beneficiary. Should Steve include any of this in gross income?

7. Cash payments presented by a labor union to members completing 25 years of service are awards includable in gross income. TRUE___ FALSE___

8. The Reverend Farmer received a rental allowance of $2,400 from his church. The money was spent as follows: $1,500 for renting the house in which he and his family lived, $300 for furniture for the house, and $600 for food. How much of the allowance would be excludable from gross income?

9. Stuart Soldier of the U.S. Army was stationed in Germany from January through July. During this time he received $4,500 active duty pay and $600 family separation allowance. In August he was released from the Army and received $700 for accrued leave. For the rest of the year he went back to college and the Veterans' Administration paid his $600 tuition. How much of this would be taxable income?

10. Jack Plumber is a veteran. He received $1,200 for tuition and $450 subsistence while he was in school. How much of these benefits administered by the Veteran's Administration is taxable?

11. John Welder was injured on the job. He was out of work for 2 months. During this period her received workmen's compensation payments from his state. Must John report these payments as gross income?

12. Mr. and Mrs. Designer received $3,600 in social security payments last year. In addition, they had $700 in interest income. What is their gross income for federal tax purposes?

13. Gene Driver lost his leg in a car accident last fall. The insurance company paid Gene $15,000 for this loss. Does Gene have to include the $15,000 in income?

14. Susan Stockbroker pays premiums on an insurance policy that guarantees her $100 a week if she is disabled. She was disabled for one month and received $450 from the policy. Does she have to include the $450 in gross income?

15. Which of the following items are included in gross income? Indicate whether included or excluded.

Federal	Oregon	
_____	_____	a. Public assistance
_____	_____	b. Veterans' benefits
_____	_____	c. Rental allowance for ordained minister
_____	_____	d. Army active duty pay
_____	_____	e. Social security payments
_____	_____	f. Combat pay
_____	_____	g. Bonus received from employer
_____	_____	h. Interest on Series E bond
_____	_____	i. Interest on Port of Seattle Bonds

16. If a person receives more than $20 a month in tips while working for one employer, when must they be reported to the employer?

17. In May, Jack Waiter received $19.50 in tips from the M and R Cafe. He also received $16 in tips from the Starlight Restaurant. When does he have to report these tips to his two employers?

18. If Sue Beautician earned less than $20 a month in tips, she does not have to include the tips in gross income.

TRUE ______ FALSE ______

19. May Plumber is a waitress at the Watson and Parkview Restaurant. In June, she received $100 in tips at the Watson Restaurant and $10 in tips at the Parkview Restaurant.

a. How much in tips should she report to her two employers?
b. How much should May include on her return?

20. Larry Librarian received the following interest income. Check those items which are tax exempt on his federal return.

______ a. $200 on a savings account
______ b. $17 interest from a state school bond issue
______ c. $290 interest earned on a loan he made to a friend
______ d. $187 interest from the county industrial

development board bond

_____ e. $920 from his credit union

_____ f. $620 interest from the Port of New Orleans Authority

21. Sarah Investor purchases a $10,000 corporate bond for $9,100 on June 30, 1974. The bond is due June 30, 1984 (10 years).

    a. What is the total discount she received on the bond?
    b. What is her ratable monthly portion of the discount?
    c. How much income is she to report from the discount in the current year?

22. Determine for federal income tax purposes who of the following (Joanie, Jamie, and Alice) must report the interest income on a U.S. savings bond.

    a. Joanie Jeweler purchases a $50 savings bond for her 3-year-old son, Jamie. Jamie is listed as the owner. Joanie ( ) Jamie ( )

    b. Joanie Jeweler also purchased a $25 savings bond and listed her daughter, Alice, as co-owner.
    Joanie ( ) Alice ( )

    c. Is your answer the same for Oregon income tax purposes?

23. Joanie Jewler wants to know for federal income tax purposes in which year she should report interest income from the following U.S. savings bond:

    a. A $100 series H bond:

    _____ Year of receipt or year accrued
    _____ Year of redemption
    _____ Both
    _____ Either

    b. A $50 series E bond:

    _____ Year of receipt or year accrued
    _____ Year of redemption
    _____ Both
    _____ Either

24. Identify which of the following are qualifying dividends:

_____ a. A $230 dividend paid by the United Farmers Cooperative of Oregon City, OR.

_____ b. A $175 dividend paid by the Old Retail Company of New Castle, PA.

______ c. A $185 dividend paid by the Panama Banana Company of Panama City, Panama.

______ d. A $620 dividend paid by the Great Spaces Real Estate Investment Trust Co. of Black Duck, MN.

25. Determine the dividend exclusion for the following taxpayers:

    a. John and Jane Pipefitter jointly own stock in Q-Tee Doll Company. They received a $170 dividend from the company.

    b. Mike and Joyce Cherrypicker own 20 shares and 30 shares respectively of the Hickory Hill Fire Alarm Company. Mike received $90 in dividends and Joyce $430 in dividends.

    c. Janice Riflemaker received a $205 dividend from the Great Alden Ice Company.

26. Art and Gail Beard had adjusted gross income of $24,000 in 1981. In addition, Art received $3,200 in unemployment compensation. The Beards do not claim the disability income exclusion and they file a joint return. How much unemployment compensation must they include in gross income in 1981?

27.

Type of Income	Schedule/Form on which Gross Income is Reported:	Line number on Form 1040, pg. 1 Net Income is Reported:
a. Fully taxable military pension	________	________
b. Profit from operating a pet store (sole proprietorship)	________	________
c. $2,000 won in a church raffle	________	________
d. $500 gain on the sale of stock	________	________

28. Which of these items are included in gross income?

	YES	NO
a. Veterans' benefits	________	________
b. Director's fees earned	________	________
c. Jury duty fees	________	________
d. $300 income from hobby	________	________
e. Notary fees	________	________
f. Profit from a business	________	________
g. Bribes	________	________
h. Child support payments received	________	________
i. Unemployment benefits	________	________
j. Tip income	________	________
k. Wedding gift (from a friend)	________	________
l. Prize won on a game show	________	________

29. Gerald Chemist has been awarded a fellowship by the U.S. Government to do research not leading to a degree. He is to receive $6,000 each year for 4 years. How much would be excludable from gross income and how much would be taxable each year?

30. John Doorman, who is not a candidate for a degree, received a research grant from the federal government to be paid in the following manner:

$2,500 on Jan. 1, 1976 $3,500 on Jan. 1, 1977
$4,500 on Jan. 1, 1978

In 1976 John performed the required duties of the grant in January, March, May, July and December. What is the excludable amount of the grant for 1976? For 1977, when he performed duties for 12 months? For 1978 when he performed duties for 12 months?

31. Upon the death of his wife, Steve Teacher inherited $60,000 from her life insurance policy. He elects to receive payments in installments over a period of 20 years, beginning January 1. During the year he received $4,200. How much can he exclude from gross income?

32. John Jockey died. His wife was his only beneficiary.
    a. She received a lump-sum payment of $20,000 from an insurance policy.
    b. She left a second life insurance policy on deposit with the insurance company. The face value at the time of Mr. Jockey's death was $50,000. However, she elects to receive the money over 5 years. The company will pay her $12,000 a year.
    c. Mr. Jockey's employer decides to pay his widow a lump sum of $72,000 in consideration for Mr. Jockey's past services.

    What is Mrs. Jockey's excludable death benefit? What does she include in gross income for tax purposes? Show your computation.

33. Harry Beautician dies, leaving his wife and three children as his beneficiaries. Mr. Beautician's employer decides to pay $35,000 for past performance in the following way:

Mrs. Beautician	$20,000
Each child $5,000	15,000
Total	$35,000

What is Mrs. Beautician's taxable portion of the $35,000 payment? What are the children's taxable portion of the $35,000 payment? (Round off your computations to full dollar figures)

34. Mrs. Potter died, leaving her husband as beneficiary of a $200,000 life insurance policy. Mr. Potter elects to leave the proceeds on deposit with the insurance company. The company will pay Mr. Potter the interest yearly ($2,500). No principal is distributed. Can Mr. Potter exclude $1,000 of the interest since he is a surviving spouse?

35. State income tax refund for the prior year $117. Federal income tax refund $223. (Taxpayer claimed a standard deduction last year.) What is includable in federal gross income?

36. Lottery winnings $250; cost of all tickets purchased during the year $120. What is includable on the federal return?

37. Cashed a matured life insurance policy; proceeds $70,000; net cost $75,000. What is includable?

38. Circle the items that are taxable income on the federal return:

- a. Sick pay from insurance provided by your employer
- b. Social security
- c. Inheritance
- d. Lump sum payments on release from active military service
- e. Re-enlistment bonuses
- f. Reserve training
- g. Combat pay
- h. Veteran's disability pension
- i. Serviceman's dependents allotments
- j. Union pensions
- k. Cash gifts from your employer
- l. Scholarships
- m. Gain on sale of inherited property
- n. Income from inherited property
- o. Gifts
- p. Strike benefits
- q. Railroad retirement
- r. Unemployment compensation
- s. Workmen;s compensation
- t. Dividends from securities
- u. Welfare funds
- v. Alimony
- w. Child support
- x. Prizes
- y. Jury duty
- z. Earned income
- aa. Commissions
- bb. Cancelled debt
- cc. Tips
- dd. Bonuses
- ee. Life insurance proceeds
- ff. Sick pay from your employer
- gg. Sick pay from insurance you pay for
- hh. Income you earned in Canada
- ii. Other compensation paid (from W-2 information)
- jj. Your company's stock received as a bonus
- kk. Cost of living allowances paid to U.S. employees stationed outside of U.S.
- ll. Renter refund from the State of Oregon
- mm. $5,000 death benefit paid by employer to surviving spouse
- nn. Interest from municipal bonds
- oo. Interest from U.S. bonds
- pp. Accident and health insurance proceeds
- qq. Rental allowance of clergyman
- rr. Vacation pay
- ss. Your cost in a pension
- tt. Holiday pay
- uu. Patronage dividends (farmer)
- vv. Car pool receipts
- ww. kickbacks

S/SES.3/19

39. The value of an inherited oil lease, $50,000, must be included in gross income in the year received. True or false?

40. Jack owns an apartment building and a restaurant. He agrees to let Tom, an accountant, live rent-free in one of his apartments in exchange for Tom's services. Tom keeps Jack's books and prepares all his tax returns. Tom normally charges $250 per month for this service. Jack rents an apartment identical to Tom's for $300 per month. Figure how much each must include in his gross income for 1981, assuming the arrangement was in effect all year.

SESSION 4

ADJUSTMENTS TO GROSS INCOME

Reading Assignment: Publication 17, Chapters 14, 15, 16, 17, 12 pages 45, 46

1040 Pamphlet - Pages 11, 12

A. VOCABULARY

Accounting to your employer
Alimony
Commuting
Deductions fromgross income
Disability
Forfeited Interest
Indefinite assignment
Individual Retirement Account (IRA)
Keogh (HRIO) plan
Mandatory retirement age
Minimum retirement age
Moving expenses
Outside salesman
Per diem
Periodic payments
Retired
Separate maintenance payments
Tax home
Temporary assignment
Transportation expense
Travel away from home

B. INTERVIEW QUESTIONS

1. Moving expenses
   - a. Did you move?
   - b. How far did you move?
   - c. Are you working in your new area?
   - d. When did you start to work?
   - e. How far is it from your former residence to your new business location?
   - f. How far did you drive to work at your former location?
   - g. After you secured your employment, did you go to the new area to search for a place to live?
   - h. Did you have to stay in temporary quarters after getting your new job until you could get into your home? How long?

2. Employee Business Expenses
   a. Did you have to take any business trips this year?
   b. Did you use your car for your employer, other than driving to and from work?
   c. Outside salesman: Do you do any selling at your employer's place of business?
   d. If they claim a business car 100% business: Do you use the car to drive from your home to work and home again at night? Do you ever use that car to go to the grocery store or the barber shop?
   e. Do you work on two different jobs on the same day?

3. Alimony
   a. When were you divorced?
   b. When do you make and/or receive the payments?
   c. How much are they?
   d. How long are you going to have to pay and/or receive them?
   e. Does the decree have any special instructions concerning these payments?

4. Disability Exclusion
   a. Are you or your spouse permanently or totally disabled?
   b. Have you reached age 65 or mandatory retirement age?
   c. How much did you receive in disability payments?
   d. From whom did you receive it?
   e. Did you or your employer purchase the disability insurance?

INDIVIDUAL RETIREMENT ARRANGEMENTS

Employees and self-employed persons receiving compensation may establish individual retirement arrangements if they are not covered at any time in the year under qualified plans of their employers, under Government plans, or by certain annuities, or HR-10 or Keogh plans. For a complete explanation, see Publication 590.

You may set up an Individual Retirement Arrangement (IRA) if you are not an active participant in a qualified retirement plan (including HR-10, government, or tax-exempt organization annuity programs). However, members of an armed forces reserve unit or a national guard unit and members of a volunteer fire department may, subject to certain restrictions, be eligible to set up an IRA. For more information on who may set up an IRA, see**Publication 590, Tax Information on Individual Retirement Arrangements.**

If you are eligible and decide to set up and contribute to an IRA, you will be allowed to subtract from your gross income a certain amount of your contributions for each year in which you continue to qualify. You will be creating a tax-sheltered retirement fund, the contributions to which, and earnings of which, are not taxable to you during your working years.

After you retire, when you probably will be in a considerably lower tax bracket than while you were working, both your contributions and the accumulated earnings become taxable when distributed to you. Amounts received are fully taxable to you as ordinary income in much the same way as distributions under a pension plan to which your employer made contributions, but to which you made none.

Amount deductible---general rules. Contributions under the programs are deductible for the least of the following amounts:

1) The actual amount of the contribution;
2) $1,500; or
3) 15% of compensation.

In the case of married taxpayers, if both spouses otherwise qualify, each may deduct up to the maximum amount allowable.

Amount deductible by certain married individuals. If you are married and your spouse is neither employed not self-employed at any time in the year, you may, if you qualify for your own IRA, set one up for each of you and deduct your contributions to both your IRA and your spouse's IRA.

If you do open an IRA for yourself and your unemployed spouse, the most you may contribute (and deduct as an adjustment) is the smallest of the following amounts:

1) Twice the lesser of:
    a) The amount paid to your account, or
    b) The amount paid to your spouse's account, or
2) An amount equal to 15% of compensation includible in your gross income for the tax year, or
3) $1,750.

Because of limitation (1), the maximum deduction can be reached only if you divide the contributions equally between yourself and your spouse.

Simplified employee pensions (SEP's). Under certain circumstances, your employer may contribute to your IRA. You must include the contributions in your income, but you may also deduct them as an adjustment.

The most your employer may contribute to your IRA is the lesser amount of $7,500 or 15% of your wages.

If your employer contributes less than $1,500 to your IRA and if this amount is also less than 15% of your wages, you may make up the difference and deduct your contributions as well as your employer's contributions.

For more details on SEP's see Chapter 12 of Publication 17.

SELF-EMPLOYED RETIREMENT PLANS

Z

Self-employed persons my be entitled to a limited deduction for contributions that provide retirement benefits for themselves either as sole proprietors or as partners of a partnership, if they derive earned income from personal services rendered to that trade or business. If the plan qualifies, the self-employed person may contribute and deduct the lesser of $7,500 or 15% of net earnings from self-employment. However, if the taxpayer's adjusted gross income (without taking into consideration the Keogh (HR-10) contribution) does not exceed $15,000, the self-employed person may make a minimum contribution of the lesser of $750 or 100% of net earnings from self-employment for that tax year.

In order to initiate such a retirement plan, you may adopt your own written program, or a written program prepared by certain sponsoring organizations which generally have received prior Internal Revenue Service approval of the form of their plan.

While the general rules for qualification apply to all retirement plans, there are additional requirements for plans benefiting certain self-employed individuals who are owner-employees. One of these additional requirements is that if taxpayers establish plans for themselves, the plans also must cover their eligible employees who have at least 3 years of service.

If you make a contribution to a qualified plan after the close of your tax year, but before the due date (including extensions) of your return, you may deduct your contribution for that year if you meet all other requirements.

Additional information on self-employed retirement plans may be found in **Publication 560.**

INTEREST FORFEITED

You must report the gross amount of interest paid or credited to you during the year you make an early withdrawal from a time savings account. You may not reduce your reportable income by the amount of the resulting forfeiture. However, in arriving at adjusted gross income, you may deduct an amount forfeited for early withdrawal of funds from a time savings account, certificate of deposit, or similar class of deposits.

Usually, the financial institution will show the deductible amount on Form 1099-INT, along with the amount you must include in income. If you are not furnished such information, you should contact the financial institution and ask how much of the penalty is deductible.

I. Maximum standard mileage rates (optional mileage) per IRS regulation:

a. 1979: Auto was considered for tax purposes to be fully depreciated if used five years in business. All five years standard mileage rates used.

b. If actual expenses used at any time, this would set depreciation guide.

c. Prior to 1979 if investment credit taken on longer period, this would set depreciation guide.

d. 1980: Regulation changed to 60,000 business mies. After 60,000 business miles claimed at standard mileage rates, then auto considered fully depreciated.

e. When computing gain or loss on trade of business auto, use formula below (Part V, or prior Form 2106).

1. Example: Car purchased in 1979 for $5,000, assume 100% business use. All years used optional mileage. Car traded in 1981 for new 100% business car. What prior depreciation has been claimed? (Included within the standard mileage rate.)

1979: 20% x $5,000 = $1,000. (20% = 1/5)

1980: Business mileage claimed: 14,000 miles

$\frac{14,000}{60,000}$ x $5,000. = $1,166.

1981: Business mileage claimed prior to trade: 10,000 miles

$\frac{10,000}{60,000}$ x $5,000. = $ 833.

PART V.—Basis for Depreciation of Car Used in Business (See instructions on front)

Trade-in of Old Car:

1 (a) Total mileage at trade-in	miles
(b) Business mileage	miles
(c) Business percentage (divide line (b) by line (a))	%
2 Purchase price or other basis	
3 Trade-in allowance	
4 Difference (subtract line 3 from line 2)	
5 Multiply line 4 by percentage on line 1(c)	
6 Gain or (loss) on previous trade-in	
7 Balance of lines 5 and 6 (subtract gain or add (loss))	
8 Depreciation allowed or allowable	
9 Gain or (loss) on business part (Subtract line 7 from line 8 for gain; or line 8 from line 7 for (loss))	

New Car:

10 Purchase price or other basis	
11 Estimated salvage value	
12 Difference (subtract line 11 from line 10)	
13 Multiply line 12 by the percentage on line 6 of Part IV	
14 Enter gain or (loss) from line 9	
15 Basis for depreciation (Balance of lines 13 and 14: subtract gain or add (loss))	

PART VI.—Car Depreciation

Make and model of car (a)	Date acquired (b)	Basis (from line 15, Part V) (c)	Age of car when acquired (d)	Depreciation allowed in previous years (e)	Method of figuring depreciation (f)	Rate (%) or life (years) (g)	Depreciation this year (h)

II. It is permissable to use optional mileage rates for one car and actual mileage rates for a second business car within the same year.

Example 1: Taxpayer used optional mileage for 12,000 miles on car used until August. In August, taxpayer purchases a new business car and uses actual expenses.

Example 2: Taxpayer uses actual expenses on business car (used 12,000 miles) until August when he purchases a new business car. He then can use optional mileage on new car if he prefers. However, due to 15,000 mile limit, he would be able to deduct only 3,000 miles at 20¢ per mile and the balance at 11¢ per mile.

SAMPLE

Form **2106**
Department of the Treasury
Internal Revenue Service

Employee Business Expenses

(Please use Form 3903 to figure moving expense deduction.)
▶ Attach to Form 1040.

OMB No. 1545-0139

1981

Your name: MILLER MERRIMAN
Social security number: 87 : 77 : 8488
Occupation in which expenses were incurred: OUTSIDE SALES / VICE PRES.
Employer's name: MOD-HOMEX, INC.,
Employer's address: 3 BUSH LANE, CHICAGO, ILL., 60625

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Instructions

Use this form to show your business expenses as an employee during 1981. Include amounts:

- You paid as an employee;
- You charged to your employer (such as by credit card);
- You received as an advance, allowance, or repayment.

Several publications available from IRS give more information about business expenses.

Publication 463, *Travel, Entertainment, and Gift Expenses.*

Publication 529, *Miscellaneous Deductions*

Publication 587, *Business Use of Your Home.*

Publication 508, *Educational Expenses.*

Part I.—You can deduct some business expenses even if you do not itemize your deductions on Schedule A (Form 1040). Examples are expenses for travel (except commuting to and from work), meals, or lodging. List these expenses in Part I and use them in figuring your adjusted gross income on Form 1040, line 31.

Line 2.—You can deduct meals and lodging costs if you were on a business trip away from your main place of work. Do not deduct the cost of meals you ate on one-day trips when you did not need sleep or rest.

Line 3.—If you use a car you own in your work, you can deduct the cost of the business use. Enter the cost here after figuring it in Part IV. You can take either the cost of your actual expenses (such as gas, oil, repairs, depreciation, etc.) or you can use the standard mileage rate.

The mileage rate is 20 cents a mile up to 15,000 miles. After that, or for all business mileage on a fully depreciated car, the rate is 11 cents a mile. If you use the standard mileage rate to figure the cost of business use, the car is considered to have a useful life of 60,000 miles of business use at the maximum standard mileage rate. After 60,000 miles of business use at the maximum rate, the car is considered to be fully depreciated. (For details, see **Publication 463.**)

Caution: You cannot use the mileage rate for a leased vehicle.

Figure your mileage rate amount and add it to the business part of what you spent on the car for parking fees, tolls, interest, and State and local taxes (except gasoline tax).

Line 4.—If you were an outside salesperson with other business expenses, list them on line 4. Examples are selling expenses or expenses for stationery and stamps. An outside salesperson does all selling outside the employer's place of business. A driver-salesperson whose main duties are service and delivery, such as delivering bread or milk, is not an outside salesperson. (For details, see **Publication 463.**)

Line 5.—Show other business expenses on line 5 if your employer repaid you for them. If you were repaid for part of them, show here the amount you were repaid. Show the rest in Part II.

Part II.—You can deduct other business expenses only if (a) your employer did not repay you, and (b) you itemize your deductions on Schedule A (Form 1040). Report these expenses here and under Miscellaneous Deductions on Schedule A. (For details, see **Publication 529.**)

You can deduct expenses for business use of the part of your home that you exclusively and consistently use for your work. If you are not self-employed, your working at home must be for your employer's convenience. (For business use of home, see **Publication 587.**)

If you show education expenses in Part I or Part II, you must fill out Part III.

Part III.—You can deduct the cost of education that helps you keep or improve your skills for the job you have now. This includes education that your employer, the law, or regulations require you to get in order to keep your job or your salary. Do not deduct the cost of study that helps you meet the basic requirements for your job or helps you get a new job. (For education expenses, see **Publication 508.**)

Part IV, line 8—Depreciation

Cars placed in service before 1/1/81:

You must continue to use either the standard mileage rate or the method of depreciation you used in earlier years. You cannot change to either of the new methods available in 1981.

Cars placed in service after 12/31/80:

If you placed a car in service in 1981 and you do not use the standard mileage rate, you must use the new Accelerated Cost Recovery System (ACRS). One method lets you deduct the following percentages of your cost basis regardless of what month you placed the car in service:

1981—25%
1982—38%
1983—37%

Example: You bought a new car, without a trade-in, for $10,000 in September 1981, and used it 60% for business. Your basis for depreciation is $6,000 ($10,000 × 60%). For 1981 your depreciation deduction is $1,500 ($6,000 × 25%). If your percentage of business use changes in 1982, you must refigure your basis for depreciation.

There is also an alternate ACRS method under which you may use a straight line method over a recovery period of 3, 5, or 12 years.

Note: *If you use the mileage rate, you are considered to have made an election to exclude this vehicle from ACRS.*

You do not have to consider salvage value in either of these methods. Please see **Publication 463** for details on how to figure the deduction under either method.

PART I.—Employee Business Expenses Deductible in Figuring Adjusted Gross Income on Form 1040, Line 31

1 Fares for airplane, boat, bus, taxicab, train, etc.	2,042
2 Meals and lodging	948
3 Car expenses (from Part IV, line 21)	3,511
4 Outside salesperson's expenses (see Part I instructions above) ▶ ENTERTAINMENT + MISC EXPENSES	1,660
5 Other (see Part I instructions above) ▶ MISC. AWAY-FROM-HOME EXPENSES (BAGGAGE CHARGES, TEL. + TEL.; LAUNDRY)	195
6 Add lines 1 through 5	8,356
7 Employer's payments for these expenses if not included on Form W-2	-0-
8 Deductible business expenses (subtract line 7 from line 6). Enter here and include on Form 1040, line 23	8,356
9 Income from excess business expense payments (subtract line 6 from line 7). Enter here and include on Form 1040, line 20	-0-

PART II.—Employee Business Expenses that are Deductible Only if You Itemize Deductions on Schedule A (Form 1040)

1 Business expenses not included above (list expense and amount) ▶ EDUCATION EXPENSE (TUITION, ETC.) - $110, ENTERTAINMENT + BUSINESS GIFTS - $1,997	
2 Total. Deduct under Miscellaneous Deductions, Schedule A (Form 1040)	2,107

343-142-1

Form **2106** (1981)

PART III.—Information About Education Expenses Shown in Part I or Part II

1 Name of educational institution or activity ▶

2 Address ▶

3 Did you need this education to meet the basic requirements for your job? ☐ Yes ☒ No

4 Will this study program qualify you for a new job? ☐ Yes ☒ No

5 If your answer to question 3 or 4 is Yes, you cannot deduct these expenses If No, explain (1) why you are getting the education, and (2) what the relationship was between the courses you took and your job. (If you need more space, attach a statement.) ▶ MAINTAIN + IMPROVE SKILLS AS VP SALES

6 List your main subjects, or describe your educational activity ▶ CURRENT SALES TRENDS

PART IV.—Car Expenses (Use either your actual expenses or the mileage rate.)

	Car 1	Car 2	Car 3
A. Number of months you used car for business during 1981	12 months	months	months
B. Total mileage for months in line A	20,000 miles	miles	miles
C. Business part of line B mileage	16,000 miles	miles	miles

Actual Expenses (Include expenses on lines 1–5 for only the months shown in line A, above.)

	Car 1	Car 2	Car 3
1 Gasoline, oil, lubrication, etc.	1,609		
2 Repairs	162		
3 Tires, supplies, etc.	50		
4 Other: (a) Insurance	168		
(b) Taxes			
(c) Tags and licenses	22		
(d) Interest	250		
(e) Miscellaneous			
5 Total (add lines 1 through 4(e))	2,261		
6 Business percentage of car use (divide line C by line B, above)	80 %	%	%
7 Business part of car expense (multiply line 5 by line 6)	1,809		
8 Depreciation (see instructions on front) **Caution:** *If you use ACRS, skip line 9 and enter the amount from line 8 on line 10.*	1,602		
9 Divide line 8 by 12 months			
10 Multiply line 9 by line A, above	1,602		
11 Total (add line 7 and line 10; then skip to line 19)	3,411		

Mileage Rate

12 Enter the smaller of (a) 15,000 miles or (b) the combined mileages from line C, above		15,000 miles
13 Multiply line 12 by 20¢ (11¢ if car is fully depreciated) and enter here		3,000
14 Enter any combined mileage from line C that is over 15,000 miles	1,000 miles	▨
15 Multiply line 14 by 11¢ and enter here		110
16 Total mileage expense (add lines 13 and 15)		3,110
17 Business part of car interest and State and local taxes (except gasoline tax)		200
18 Total (add lines 16 and 17)		3,310

Summary

19 Enter amount from line 11 or line 18, whichever you used	3,411
20 Parking fees and tolls	100
21 Total (add lines 19 and 20). Enter here and in Part I, line 3	3,511

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TRAVEL & ENTERTAINMENT QUESTIONNAIRE

1. Are you claiming any expense for TRAVEL which involved being away from home over night? If "yes", answer all questions below that are preceeded by "T" YES___ NO___

2. Are you claiming any expense for ENTERTAINMENT? If "yes" answer all question below that are preceeded by "E". YES___ NO___

3. Are claiming any expense for GIFTS you have given? If "yes", answer all questions below that are preceeded by "G". YES___ NO___

T.E. Do you have an account book, diary, statement of expense or similar that was prepared at or near the time of each expenditure? YES___ NO___

T.E. If you have a record as stated above, does it indicate the amount of the expenditure, the time and place of travel or entertainment, the business purpose and the business relationship to yourself of each person entertained? YES___ NO___

T.E. Do you have receipts, paid bills, or similar evidence that indicates each type of expense, such as lodging, meals, phone, etc., for all amounts spent for lodging and any other expenditures over $25? (If the only receipts you have are canceled checks, answer, "no"). YES___ NO___

E. If any of your entertainment was done in a private club, on a boat or other facility, do you have a record that shows each date the facility was used, how many persons were entertained, and if the use was for the furtherance of your business or was personal. (this includes personal use by yourself, your family, and/or friends). YES___ NO___

G. Do you have a record that lists each person to whom you gave gifts directly or indirectly (gifts to members of family) and the total value of all gifts given to each person during the year? YES___ NO___

G. Did you give any one person, directly or indirectly, gifts that cost you more than $25? YES___ NO___

T.E.G. If the answer to any of the "T", "E", "G", questions is NO, do you have any indirect evidence that will support your own statements? This could include statements from third parties. YES___ NO___

If YES list in general, type of indirect evidence.

Signature ______________________ Title (Taxpayer, Preparer) ______________________

The questions were answered directly by ______________________

I understand that if any of the above questions are knowingly answered incorrectly and a deduction is claimed on a Federal Income Tax return based on these answers, the person providing the answers could be subject to a penalty.

√

PROBLEMS FOR STUDENTS TO WORK IN CLASS
OR
AS HOMEWORK

SESSION 4 : Adjustments to Gross Income

1. Indicate whether Form 2106 or Schedule A would be used to deduct each of the following items:

____ a. Unreimbursed travel expenses of a nonoutside salesman.
____ b. Unreimbursed gift expense of an outside salesman.
____ c. Reimbursed entertainment expense of a nonoutside salesman.
____ d. Unreimbursed entertainment expense of a nonoutside salesman.
____ e. Unreimbursed travel expense of an outside salesman.

2. Place an "X" beside each of the following items which is an allowable travel or transportation expense:

____ a. Cost of taking a bus from home to your regular place of work.
____ b. Expenses incurred in business use of one's car.
____ c. Expenses of transporting sample or display material.
____ d. Taxi fare from the airport to your hotel while away from home.
____ e. Meal expense on a round-trip taking a total of ten hours.

3. a. Marsha Locksmith lives and works in Joplin, Missouri. What is her tax home?

b. Jim Pitcher lives in Arlington, VA., and works in New York City. What is his tax home?

c. Elaine Worker is a manager for a fast-food restaurant. Her position requires her to move into an area each time a restaurant is completed. She hires personnel, trains managers, etc. She takes an apartment at each location. She is single and has no family, so she makes a complete move for each assignment. She remains in the area until she receives instructions to report elsewhere. What is her tax home?

d. John Dealer lives in Greensboro, NC. He is a teacher in Greensboro for 9 months a year earning $18,000. During the summer he is a lifeguard at his father's hotel in Panama City, Florida, where he earns around $2,000. What is his tax home?

4. Charlie Comptroller previously worked in Jacksonville, Florida where he and his family had lived for many years. Charlie accepted a new job in Atlanta. Charlie did not want to move from Jacksonville, so he agreed to pay his own travel expenses to and from Atlanta as well as his living expenses in both cities. Can Charlie deduct his transportation? What about his living expenses? Give the reasons for your answer.

5. Billy Banker lives and works in Dallas, Texas. His employer opened a branch office in Houston and sent Billy there to train the new manager. Billy expects to be in Houston 3 or 4 months.
   a. Is Billy's travel to and from Houston deductible? Why?
   b. Are his meals and lodging while in Houston deductible?
   c. If Bill returns to Dallas on weekends, may he deduct any expenses?

6. Mr. Jockey flies nonstop from Seattle to Juneau. The flight passed over Canada. Is his travel within the U.S.?

7. Mr. Tentmaker attended a convention in New York to learn about new developments in his trade. His wife went along to shop. which of the following may he deduct?
   ____ a. His plane fare
   ____ b. Wife's lodging
   ____ c. Tickets to a Yankee baseball game

8. If Andy Actor leaves the U.S. on Wednesday and returns the following Wednesday, is he outside the U.S. for more than a week?

9. Vinnie Vet went to Paris. Of the 21 days he was there, 5 were spent on a personal vacation. Are his travel expenses deductible? Why?

10. a. Jane Juror accounted to her employer for her airfare expenses of $982. Her employer reimbursed her $900 (not shown on her Form W-2). How would Jane indicate that she does not wish to deduct the excess expense?
    b. Complete the form necessary if she decides to deduct the excess expense.

11. If Felicia Fisher goes on a business trip for her employer to Washington,D.C., and is paid $50 a day subsistence (the maximum government rate), what factors must she substantiate concerning her trip?

12. John Gymnast receives 15 cents a mile for local business transportation from his employer. Has he accounted to his employer concerning the amount? Does he have a deduction?

13. Must the cost of each meal be recorded?

14. Documentary evidence is required for expenditures of what amount?

15. Complete Part IV of Form 2106, using the following information. Also state whether the optional or regular method is more advantageous.

Gas and oil	$ 801.	
Total miles (12 months)		25,500
Business miles (12 months)		17,000
License	50.	
Insurance	230.	
Repairs	78.	
Tires	86.	
Parking	78.	
Depreciation (straight-line method)	1,002.	

16. Sam Baker is an outside salesman who uses his car only for business. He drove his car a total of 25,000 miles. His operating expenses for the car were as follows: $1,800 for gas and oil, $500 for repairs, $300 for depreciation, $200 for tires, $600 for parking and tolls. What is the maximum allowable automobile expense for Sam? ________

17. Dick Dover works for an accounting firm and uses his car for outside audits of the firm's clients. Dick used his car for a total of 30,000 miles with 3,000 miles being allocated for business use. The operating (TOTAL) expenses were as follows: $2,000 for gas and oil, $1,000 for repairs, $500 for tires, $500 for insurance, depreciation (business portion only) $75. What is the maximum allowable auto expense? ____________

SESSION 4

EXERCISES - ADJUSTMENT TO GROSS INCOME

1. The moving expense deduction may be taken if two tests are met. They are ______________________ and ____________________.

2. You may deduct ______________ a mile as moving expense when traveling in your personal auto.

3. If you have been claiming actual expenses on your automobile used for business and the automobile has been depreciated to salvage value, you may still claim ______ per mile.

4. Herbert and Joan Dudly were divorced. The divorce decree required Herbert to pay $200 per week to Joan, but such payments were to be reduced to $50 per week upon the death, or marriage or majority of either of their two children. Is Joan entitled to exclude any portion of the payments as child support? ______ How much?_________.

5. Alimony payments are are not (circle one) taxable income to the person receiving payments.

6. Jerry Dye and his wife Mamie are divorced. Under the terms of the divorce decree, he is to pay her a total of $40,000 at the rate of $416.66 a month for eight years. The payments are to be discontinued if she remarries. Is Mr. Dye entitled to a deduction for any of the payments made during the taxable year? _______ How much?_______.

7. If you regularly work in two or more separate areas, how is your tax home for travel expense purposes determined?____
____.

8. The minimum distance requirement for business-related moves to claim the 3903 moving adjustment is ______ miles.

9. Can a taxpayer deduct moving expenses even though the taxpayer does not itemize deductions.

10. Is the cost of househunting trips incurred prior to obtaining employment at the new location an allowable moving expense? Explain: ______________________________
____
____.

11. Can an employed person seeking employment in another state deduct the cost of the move to that state whether or not work is found in that state? ______ Explain:____
____
____
____.

12. The general manager of a corporation lives in a suburb and comes to business every day in a limousine, driven by a chauffeur. Estimated yearly expense of using the general manager's car for this purpose is more than $2,000. Can this be deducted? ______ Explain: ________
____
____.

13. Johnny Sage, who works 8 hours a day as an elevator operator takes a cab from this job one night a week to go to an armory where he drills as a member of an Armed Forces reserve unit. The cab costs him $1 and he must take it in order to get to the armory on time. Is this expense deductible? ________ Explain:__________________
____.

14. Mr. Brown traveled from New York to Chicago to attend a bar association convention. The trip lasted 10 days, three of which were spent in sightseeing. His railroad fare was $80; meals and lodging $240. What is the amount deductible as business expense? ______________

15. A taxpayer took his wife on a 10-day business trip. While on the trip his wife occasionally typed business notes for him and accompanied him at luncheon and dinner. They spent $250 for plane fare, $100 for meals, of which one-half was for his wife, and $180 for hotel rooms. The hotel rate was $18 per day for a double room while a single room would have cost $10 per day. One-half of the travel expenses were allocable to his wife. How much of the total cost of the business trip may he deduct as a business expense? ______________

16. To be able to deduct meals and lodging while away from home, a taxpayer must be away for a certain period. How long of a period must the taxpayer be away? ____________

17. A businessperson purchased a Volkswagen three years ago for $3,000. It was not used for business purposes prior to 1981. In 1981 it was used for business purposes with the salesperson putting 40,000 business miles on it. What is the deduction using the optional method?________
____

18. Are the fines paid by truckers for violations of state maximum weight laws deductible as a business expense when the violations are inadvertent? __________________

19. Ronald Spence operated his passenger automobile (6-cylinder) for business purposes during the current year, and elected to use the standard mileage rate to determine the amount of the deduction. How much could be claimed in each of the following situations?

a. Drove 7,000 miles $ ______
b. Drove 23,000 miles $ ______
c. Drove 5,000 miles in one car and 17,000 miles in a second car $ ______

20. What is the standard rate that can be claimed by an employee for the cost of operating a passenger automobile if the employee does not want to bother with detailed records of operating costs?

a. For business use? _______
b. For moving expense purposes? _______

21. Analyze the following employee payments and indicate A, B, or C in the proper column whether each is deductible from gross income, deductible from adjusted gross income, or not deductible.

		A Deductible From Gross Income	B Deductible From AGI	C Not Deductible
a.	Rail or bus fares to sales meeting	____	____	____
b.	Stenographic charges away from home	____	____	____
c.	Cleaning and laundry away from home	____	____	____
d.	Entertainment of client	____	____	____
e.	Travel to and from work	____	____	____
f.	Long distance business calls	____	____	____
g.	Business cards	____	____	____
h.	Stationery	____	____	____

i.	Postage	____	____	____
j.	Auto expenses between the office and client's place of business	____	____	____
k.	Education expenses to maintain skills	____	____	____
l.	Tuition for education	____	____	____
m.	Travel for education	____	____	____
n.	Books for education	____	____	____
o.	Meals & motels for education	____	____	____

22. To qualify for the moving expense adjustment must the move be business related? ____

23. An employee was transferred from one plant site to another by her employer. It used to take her a half hour to drive from her old residence to her old place of employment, a total of 35 miles. It took her one hour to drive from her old residence to her new place of employment, a total of 60 miles. Her new residence is only 5 blocks from the new location and she now walks to work in 10 minutes. Does she meet the distance requirement of the moving expense deduction? ____

24. Is it true that the moving expense adjustment is limited to $3,000? If not, to what amount does the $3,000 limit apply? ____

25. A new employee accepted employment on the condition that the employer pay for the cost of transporting the employee and the employee's family, and their household goods to the place of employment. The reimbursement by the employer must be included in gross income and, if they meet the requirements, the moving expenses may be deducted. True ___ False ___

26. Answer the following questions.

a. What are the major differences between travel and transportation expenses?

____

b. Give some examples of travel expense items.

____

27. Can transportation expenses be deducted even when the taxpayer is not away from home? ________________

28. Mr. Maple, a fertilizer salesperson, uses one car exclusively for making calls to farms in the community. He leaves early in the morning and returns home each evening. Can he deduct the cost of his noon meal and the cost attributed to transportation? ________________

29. Ralph, who is employed as an outside salesperson, incurred the following unreimbursed expenses during the year:

Auto expense while away from home on business.	$545
Local business travel (taxi, bus).	35
Meals & lodging while away from home on business .	260
Business entertainment expenses while away.	75
Stamps, stationery & misc. business expenses. . . .	25
Total.	$940

What portion of these expenses may he deduct as employee business expenses? ______________________________

____

30. Martin Jay telephones you and tells you that his employer gives him an allowance for certain expenses he incurs in his work. He then asks whether he has to report the allowance as income on his return. How would you approach the problem to answer his question correctly? ______________________________

____

31. If alimony payments are deductible by a husband, what effect does that have on the wife's tax return? If they are not deductible by the husband, then how does it affect the wife? ______________________________

____

32. Mary Kelly received $6,000 in disability income payments for 12 months in 1981. She had no other income and qualifies to exclude disability pay. Compute her disability income exclusion for 1981. ________________

____

33. On December 31, 1980, George Brown was retired on permanent and total disability. In 1981, he had $3,600 disability income and $5,000 in unearned income. What is his disability income exclusion for 1981? ____________

____

34. Harold White, who is 67 years old, was permanently and totally disabled when he retired in 1973. He received disability income of $7,200 in 1981, and his other income amounted to $1,200. What is his disability income exclusion for 1981? ____________

____

35. Rose Forman retired on permanent and total disability in 1976. Had she not been disabled, she would have been required to retire at age 70 on June 1, 1989. She received $8,400 in disability payments in 1981. In addition, she had $8,000 of other income, including interest, dividends and royalties. Compute her disability income exclusion. ____________

____

Situation 1

Dave S. and Candy L. Rollins live at 329 Sampson, Gladstone, Oregon 97207, Clackamas County. Dave is a construction worker. His SS# is 498-58-2820. His W-2's show the following:

	Fed W/H	Wages	FICA	State W/H
Garth Const. Co. Klamath Falls, OR	$1,878	$12,300	$817.95	$420
Manning Const. Co Gladstone, OR	861	4,378	291.13	104

Candy is a secretary. Her SS# is 491-54-2802. Her W-2's show:

Williamson, Inc. Klamath Falls, OR	840	5,117	340.28	250
Head Start, Inc. Gladstone, OR	205	1,345	89.44	68

Candy's two children live with them, their father pays (annually) $1,500 (per child) support. Interest from Commerce Bank came to $468 on their joint account. They have no foreign bank accounts or trusts. At the time they moved the Rollin's had to draw out a time certificate for additional money to pay for the move. The 1099 from the U.S. Bank shows $156 interest income and a forfeiture of $43.

On September 6, they moved from Klamath Falls, OR to their present address, a distance of 343 miles. Their former residence was approximately 9 miles from their place of work in Klamath Falls. In moving, they had to rent a truck to move their belongings. The rental, including all charges and gas ran $210. The travel expenses to the new residence were: Meals; $18 plus gas etc., on the two cars moved. They towed one of the cars behind the rented truck.

Dave contacted the Manning Const. Co., on August 12 and obtained employment that same day. A week later he went to Gladstone and found an apartment for them to live in. Expenses for this trip came to: Lodging for one night $16; meals for two days @ $10 a day; plus the mileage to and from Gladstone.

They sold their home in Klamath Falls on August 9, the sales commissions and other expenses of sale were $2,050. They also purchased a new home in Gladstone after staying in the apartment for two months. The expenses in the purchase of of $146. Their apartment rent was $250 a month. They usually spend $150 a month for food. During the time they were in the apartment Candy had to take the laundry out to the laundromat. She figures the laundry cost approximately $5 a week.

Dave was sent by Garth Const. Co., on March 7 to Eugene, OR, to do some troubleshooting for a job they had going at that time. He left early in the morning on the 7th. and returned March 18th in the evening. Eugene is 150 miles one way from Klamath Falls, OR. His motel costs were $12 per night and he figures he paid an average of $8 per day for food. The motel was 15 miles from the job site for 9 work days. He was not reimbursed for these expenses.

Dave is paying alimony to his ex-wife Lenore of $100 a month, which according to the divorce decree he is to pay until she remarries or dies. Dave paid all 12 payments last year.

Prepare their federal and state returns considering that they deferred the gain on the sale of their home. Candy would like to check off $1 to the Campaign Fund. Dave would not. Their telephone # is 456-8765.

Situation 2

Bill Taylor made a trip on May 3 to interview for a new job in his same line of work. He drove 350 miles and spent $45 for food and motel expenses. Mr. Taylor received his job offer a week later.

The Taylor family made two househunting trips in June, after securing the Job in Medford. They drove 800 miles and spent another $400 on motel bills and food for both of these trips.

Mr. and Mrs. Taylor sold their home in Eugene themselves. An attorney handled the transaction for $125. The lender required the Taylor's to pay $400 for points so the buyer could get a loan. The Taylor's spent $600 in fixing up expenses in June to prepare the house for sale.

The Taylor family lived eight miles from Mr. Taylor's office. They moved on September 2, from Eugene to Medford, a distance of 150 miles. They could not find suitable housing immediately so they lived in a motel for five weeks at a cost of $140 per week, and spent another $126 per week for meals during that time.

The cost of moving the household goods was $700. They moved two family cars, each spouse driving a car the distance of 150 miles. The total cost of the meals enroute was $20.

On September 15, Mr. and Mrs. Taylor bought a new home in Medford for $37,500. They paid a real estate commission of $1,000 for purchasing this home.

Complete Form 3903 for Mr. and Mrs. Taylor. Use the optional mileage rate allowed for automobiles when computing the moving expense deduction.

SITUATION 3

Complete Form 3903 to determine the allowable moving expense deduction.

Joe Blow, SS# 123-45-6789, was drawing unemployment and had been since October of last year. March 1, Joe took a trip to see if he could find work in another area doing the same type of work he had been employed in. He came across a promising lead on March 15 and returned home that night. The trip cost $200 for meals and lodging and miles driven were 2,500.

March 21, Joe received a phone call to report to work March 24, at 8:00 a.m. He reported for work as scheduled and had a new permanent job.

As soon as school was out, he moved his wife, Mary and children to his new job location.

Joe paid $80 per week for a motel from March 24 to May 10. His meals cost $8 a day. He moved into the new house by May 11.

The moving van charged Joe $2,800 for the move. The distance from Joe's old home to his new home is 500 miles. Meals for the family cost $50 and motel cost $25.

Joe sold his old home and paid a commission of $1,500. Other selling costs came to $300 (title recording, etc).

Qualifying expenses in acquiring his new home came to $500. They will file a joint return. Joe received no reimbursement from his new employer. His new home is 10 miles from work.

Is there a 2106 expense in this situation?

Situation 4

John Jones, SS# 777-85-0000, is an outside salesman and uses his car for work. The car was bought July, 1980. Last year he used the regular method for his auto expenses. Depreciation shows the following: car cost $5,000; salvage

He gave you the following:

> Odometer reading Jan 1: 11,489; Dec 31: 33,039. Business mileage 16,163; gas and oil $750; finance charge $400; tires and batteries $460; license $20; insurance $200; washing $125; parking fees and tolls $225.

Other business expenses were: Business lunches entertaining customers $300; business cards $50; stationery $50; postage $150.

John works for Acme, Inc., of Midvale, ID.

Prepare a 2106 giving John the greatest deduction possible.

Situation 5

Figure the disability exclusion on Form 2440 for these individuals. They are all under 65 years of age, have not reached mandatory retirement age, and had been permanently and totally disabled at the start of the taxable year or at the date of retirement. Their spouses are not eligible (where applicable). None of them have adjustments to income.

Taxpayer A., SS# 319-20-6789, is single and receives $75 a week from a disability pension all year. AGI before disability exclusion is $10,000.

Taxpayer B, and Spouse D., SS# 787-34-7890, are married filing jointly. He received $100 a week (30 weeks) from his disability pension since retirement date of June 6. AGI before disability exclusion of $16,000.

Taxpayer C., SS# 145-05-7654, is head of household. Taxpayer received $150 a week all year from a disability pension. AGI before disability exclusion is $20,000.

SESSION 5

ITEMIZED DEDUCTIONS
Medical, Taxes, Interest

Reading Assignment: Publication 17, Ch. 19, 20, 21

A. VOCABULARY

1. Ad valorem
2. Capital expenditure
3. Excess itemized deductions
4. Itemized deductions
5. Medicare A - Medicare B

B. INTERVIEW QUESTIONS

1. Make a checklist using Pub. 17 as a guide covering deductible medical, taxes and interest items:

   (Also available: Pub. 502 - Deductions for Medical and Dental Expenses
   Pub. 545 - Interest Expense)

2. Make **discreet** inquiries regarding possible uncommon deductions.

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

Session 5: Itemized Deductions (Medical, Taxes, Interest)

1. If no other medical deductions are itemized, your allowable medical insurance deduction would be:

   A. one-half of premiums paid
   B. entire premiums paid
   C. one-half of premiums paid not to exceed $150
   D. one-half of premiums paid less insurance reimbursements

2. Allowable medical mileage for your private vehicle is:

   A. 9 cents/mile   B. 10 cents/mile   C. 15 cents/mile
   D. 20 cents/mile   E. 11 cents/mile

3. Assuming that your AGI is $10,345, compute your medical deduction based on the following unreimbursed medical expenses: medical insurance $250; drugs & medicines $114; Dr. Bones $212; Dr. Molar $650; medical mileage 350 miles.

   A. $1,126   B. $706   C. $666   D. $845

4. Jay and Dee Gee paid the following medical expenses: (Their AGI is $18,000)

Medicine and drugs	$125
Hospital bills	750
Dr. Aye	225
Dr. Bee (Chiropractor)	75
Hospitalization insurance	103
Supplementary hospitalization insurance under Medicare	35
Doctor bills for Dee's dependent daughter by previous marriage	290
Medicine and drugs for Dee's daughter	125
Reimbursement from insurance	771

What is the allowable medical expense deduction? $________

5. Jack Ketch, age 69, had the following medical expenses: (His AGI is $19,000)

Medical and hospital insurance	$ 90
Accident insurance (pays hospital bills in case of accident)	55
Medicare insurance (supplementary)	48
Medicine and drugs	290
Insulin	65
Dr. Herod, M.D.	800

Spezia Hospital	2,000
Dr. Tamerland (Anaesthetic)	30
Corrective shoes prescribed by Dr.	90
Insurance reimbursement for hospital	1,900
Insurance reimbursement for doctors	700

What is the allowable medical expense deduction? $______

6. Billy and Lilly Chantilly have one dependent child. They live in California and their total income for the year was $26,900. Their records show:

Motor vehicle license	$ 20
State income tax refund	66
State income tax withheld	714
Real estate tax	526
State sales tax	355
County personal property tax	12
State cigarette tax	9
Sales tax on washer & dryer	25
Sales tax on dining room furniture	116
Drivers license	20
Federal income tax	1,075

What is the allowable deduction for taxes? $__________

7. A taxpayer paid $150 interest during the taxable year on a loan from the bank to pay dental expenses for one of his children. What is the interest deduction? ________

8. A taxpayer who paid foreign income taxes MUST deduct the foreign taxes as an itemized deduction.

True _______ or False _______

9. Investment income for purposes of computing the limitation on investment interest does not include which of the following:

A. Dividends
B. Interest
C. Royalties
D. Earned Income

10. Answer the following questions:
A. Are all medical expenses deductible?
B. My family doctor lives 20 miles away and it costs me $7 to drive to his office, park the car, and return home. Are these expenses deductible as medical expenses?
C. I paid my dependent daughter's medical insurance premiums last year. Do I include these premiums in my medical expense deduction?
D. My son, age 22, earned $1,000 for the year. May I deduct $800 medical expenses I paid for him?

E. My son, age 22, earned $1,800 for the year and used this money in his support. I provided support of $15 a week in addition to $800 in medical expenses. May I deduct the medical expense?

F. Would the cost of a home air conditioner be allowed as a medical expense if a doctor prescribed it to avoid hay fever?

G. Bob has $42,000 adjusted gross income. How much must his medical expenses (not including insurance) be before he can claim a medical deduction?

H. John's doctor prescribed laetrile for his illness. John bought and used the drug in a county where the sale and use of laetrile are legal. May he deduct the expense?

11. What four types of taxes may you deduct?

12. Which of the following taxes are deductible?
    A. 2% cigarette tax imposed in Illinois
    B. 6% sales tax imposed on a new airplane
    C. $260 federal income tax withheld
    D. $125 California state income tax withheld
    E. $25 auto inspection fee
    F. 3% tax on rent paid in Chicago
    G. 5% personal property tax imposed on the value of a car in Virginia
    H. $60 tax imposed in Georgia on the weight of a car.

13. When may you deduct more sales tax than the Optional Sales Tax Tables allow?

14. Ed Cox, who had no dependents, filed a federal income tax return for 1980, as a single individual. Ed's adjusted gross income was $4,100. His state income tax deduction was $600, and his other itemized deductions were $2,500. In 1981, Ed received a cash refund of the entire $600 state income tax paid in 1980. What part, if any, of his state income tax refund must Ed include in gross income for 1981?

15. Jean Gunner lives in Vermont and is single. She received a veteran's pension of $2,000, social security benefits of $610, and she earned $5,700 for the year. She paid real estate tax of $305, and state income tax of $274. Determine her allowable deduction for taxes.

16. Peter Green lives in Maryland and is single. He owns his home and paid real estate tax of $560. He paid state and local income taxes of $613. In January he bought a new car and paid $275 sales tax. His adjusted gross income for the year is $12,800. Determine his allowable deduction for taxes.

17. John Waxer paid $460 in mortgage interest on his home for the year. He also paid $65 interest on a loan from National City Bank His finance charges on his charge account were $18.

Figure John's interest expense deductions for the year.

18. Josephine Dogwood, a cash method taxpayer, obtained a mortgage loan of $40,000 to buy a home costing $50,000. The loan was secured by the home. She agreed to pay the lender, in addition to interest at the rate of 12%, a loan processing fee of $1,600, standard for her area. Josephine paid the entire $1,600 during the year and made total payments of $1,000 (including interest of $900) on the mortgage. In addition, Josephine paid $500 principal and $30 interest on her sister Mildred's loan. Mildred defaulted and Josephine, as guarantor for the loan, became liable. Later, she paid $80 interest on the remaining principal amount during the year.

Figure Josephine's interest expense deduction.

Situation: Session 5

Joe B. Tyler, age 64, SS# 001-01-0011 and his wife Clara A., age 58 SS# 100-10-1100 reside at 427 Elm St., Salem, OR., 97301 and wish to file a joint return. Joe is a bus driver with Bi-Met and his W-2 shows the following information:

Fed W/H	**Wages**	**FICA**	**State W/H**
$2,418	$18,600	$1,236.90	$1,116

Clara's brother lives with the Tyler's and they provide complete maintenance of the home. The brother, Tom Smith, receives Social Security income of $50.00 monthly, a small carpenter pension of $40.00 monthly and rent from a garage building in town that nets only $30.00 monthly (gross monthly rent: $45.00)

Joe wishes to contribute $1 to the Presidential Election Campaign Fund. Clara, a housewife, does not wish to contribute to the fund. They itemized their deductions the previous tax year and paid an additional state tax of $86.00.

In addition to wage income they received:

5th State Bank savings account interest	$ 868
XYZ Corp. dividends	44
ABC Corp. dividends	150
Bi-Met Credit Union dividends	70
Jury Duty (Mrs. Tyler)	80

They claim the following deductions:

Medical insurance	$ 250
Medicines and drugs	200
Dr. Bones	346
Dr. Molar	650
Glasses (for Clara)	250
Central Hospital	140
Medical transportation (826 miles)	7
Real Estate Tax	600
Mortgage interest	1600
Mastercharge finance charges	46
VISA finance charge	60
Gem auto finance charge	200

They had no interest in any foreign banks or trusts. Prepare their federal tax return.

SESSION 6

ITEMIZED DEDUCTIONS

Contributions, Casualty and Theft Losses,
Educational and Miscellaneous Deductions

Reading Assignment: Publication 17, Chapters 22,23,24,25
1040 Pamphlet, Pg. 17-20 & 12-13

A. VOCABULARY

Appraisal

Appreciated property

Arm's length

Capital assets

Capital gain property

Embezzlement

Fair market value

Larceny

Ordinary income property

Robbery

Tangible personal property

Theft

B. INTERVIEW QUESTIONS

1. The taxpayer's occupation will be the first clue to questions relating to their occupation.
   a. A professional person might have subscriptions, organizational dues, licenses,
   b. A welder will have protective clothing
   c. A nurse will have dues, white uniforms, malpractice insurance.
2. If a taxpayer has dividends, the stock certificates may be in a safe deposit box.
3. Did the taxpayer have professional assistance in preparing last year's tax return?
4. Did you have any casualty losses this past year?

5. when asking for contribution deductions, outline to the taxpayer the type of charitable donations deductible, such as fair market value of clothing or furniture given to a proper organization, transportation expense for a choir member or Little League coach, etc.

6. Make a checklist using Publ. 17 or the following government publications outlining deductions for:
   a. Charity
   b. Casualty or theft losses
   c. Employee educational expenses
   d. Miscellaneous deductions
      1) Publ. 508-Educational Expenses
      2) Publ. 529-Miscellaneous Deductions
      3) Publ. 547-Tax Information on Casualties, Disaster and Thefts

Limit on Deductions

Your contributions deduction cannot be more than 50% of your adjusted gross income for the year (line 31, Form 1040). The amount you may deduct will not be reduced by net operating loss carrybacks due to losses you have in later tax years. You may deduct contributions *to* most charitable organizations up to 50% of your adjusted gross income. However, contributions *for the use of* any organization, or contributions to certain private nonoperating foundations, veterans' organizations, fraternal societies, and nonprofit cemetery companies, are limited to 20% of your adjusted gross income. Also, there is a 30% of adjusted gross income limit that applies to contributions of certain capital gain property.

The 50% limit applies to:

1) All public charities,
2) All private operating foundations,
3) Certain private nonoperating foundations, and
4) Certain private foundations.

Public charities include:

1) Churches, synagogues, or conventions or associations of churches,
2) Tax-exempt educational organizations with a regular faculty and curriculum and a regular student body attending resident classes,
3) Tax-exempt hospitals and, under certain circumstances, organizations directly engaged in continuous medical research with these hospitals,
4) Organizations that receive substantial support from the United States or any state or their political subdivisions, or from the general public, and that are operated only to hold and administer property for state and municipal colleges and universities,
5) A state, a possession of the United States, or any political subdivision of any of the foregoing, or the United States, or the District of Columbia, if the contribution is made for public purposes only, and
6) Organizations exempt as charitable, religious, educational, scientific, or literary, and organizations created to prevent cruelty to children or animals, or to foster national or international amateur sports competition, but only if no part of its activities provide athletic facilities or equipment. These organizations usually must receive a substantial part of their support, other than income from their exempt activities, from direct or indirect contributions from the general public or from governmental units. The public support received must be from a representative number of persons within the community, not from a few individuals or families.

A private operating foundation is an organization that (a) spends at least 85% of its income directly to conduct the exempt purpose activities for which it is organized, and (b) meets one of the following tests.

1) At least 65% of its assets must be devoted directly to its exempt purpose or to functionally related businesses, or both.
2) At least 85% of its support must be derived from at least five independent exempt organizations and the general public, but not more than 25% from any one exempt organization, and not more than 50% from gross investment income.
3) At least two-thirds of its minimum investment return is distributed directly to conduct its exempt purpose activities.

A private nonoperating foundation is any organization, other than a public charity or a private operating foundation, exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. Gifts to a private nonoperating foundation qualify for the 50% limit if the foundation gives all the contributions it gets to public charities and private operating foundations within 2½ months following the tax year of receipt.

A private foundation qualifies for the 50% limit if all of the contributions it receives are pooled into a common fund and if the foundation is described in section 509(a)(3) of the Internal Revenue Code but for the right of a substantial contributor to name the public charities that receive contributions from the fund. Distributions of income must be made within 2½ months following the tax year in which it was realized and corpus must be distributed not later than one year after the donor's death or after the death of the donor's surviving spouse if the spouse can name the recipients of the corpus. A trust subject to the control of a distribution committee of a community trust that is a publicly supported organization will qualify for the 50% limit, even if the distribution committee can name the recipient if the donor fails to do so.

The 20% limit applies to contributions to all qualified organizations, such as war veterans organizations, domestic fraternal societies, and nonprofit cemeteries, that do not qualify for the 50% limit, described earlier. Contributions for the use of (in trust for) any charitable organization are also limited to 20% of your adjusted gross income. This includes out-of-pocket expenses you incur for a charitable organization or a gift of an income interest in trust to a charitable organization. The organization can tell you whether contributions to it qualify for the 50% or 20% limit.

Special 30% limit on certain capital gain property. Gifts of long-term capital gain property that do not have to be reduced by 40% of the appreciation are limited to 30% of your adjusted gross income. See *You usually may deduct gifts of capital gain property,* discussed earlier.

Choice. See the discussion later, under *The 50% limit may be chosen*, for an important choice you may make for 30% capital gain property contributed during the year.

How to Figure Your Deduction

You consider gifts to charitable organizations that qualify for the 50% limit first when you figure your deduction. You consider gifts to which the 20% limit applies after that and only to the extent of the lesser of 20% of adjusted gross income, or 50% of adjusted gross income minus the contributions to which the 50% limit applies, without regard to the special 30% limit.

You consider gifts of capital gain property to which the special 30% limit applies after all other gifts.

Example. Your adjusted gross income is $50,000 for 1981. During the year, you gave to your church $2,000 cash and land with a fair market value of $30,000 and a basis to you of $10,000. You had held the land for investment for more than one year. You also gave $5,000 cash to a private foundation to which the 20% limit applies. Because your allowable contributions to an organization to which the 50% limit applies, ignoring the special 30% limit, are more than $25,000 (50% of $50,000), your deductions subject to the 20% limit are not allowable. The $2,000 cash donated to the church is considered first. The deduction for the gift of land does not have to be reduced by the appreciation in value and is limited to $15,000 (30% × $50,000). The unused part ($15,000) may be carried over to later years. Therefore, in 1981 your deduction is limited to $17,000 ($2,000 + $15,000). The $5,000 contribution to the private foundation may not be carried over. See *Carryover*.

The 50% limit may be chosen for gifts of capital gain property, but you must reduce the fair market value of the property by 40% of the appreciation in value that would be long-term capital gain if the property had been sold. If you make this choice, it applies to all 30% capital gain property. You must make the choice on your original return or on an amended return filed by the due date for filing the original return.

In the previous example, if you chose to disregard the 30% limit, your deduction for 1981 would be $25,000, but there would be no carryover. To disregard the 30% limit, you must choose to reduce the fair market value of the property by 40% of the appreciation in value. Therefore, your deduction for the land would be $22,000 ($30,000 minus 40% of $20,000). You add this amount to the $2,000 cash contributed to the church. You may now deduct $1,000 of the amount donated to the private foundation because the amount applicable to the 50% limit ($24,000) is less than 50% of adjusted gross income. Your total deduction for 1981 is $25,000: $2,000 cash to your church, $22,000 for property donated to your church, and $1,000 cash to the private foundation. There is no carryover to later years.

Carryover. If your contributions to organizations to which the 50% limit applies are more than 50% of your adjusted gross income or 30% for certain capital gain property, you may deduct the excess in each of the 5 succeeding years until it is used up. You may not carry over gifts to which the 20% limit applies. You may deduct the amount carried over in the following year to the extent that it is not more than 50% of the adjusted gross income for that year less the amount donated to qualified organizations during the following year.

Example. You had adjusted gross income of $20,000 in 1981. During the year you contributed $11,000 to your church. You may deduct $10,000 in 1981 (50% of $20,000), and carry over $1,000. In 1982, if you have adjusted gros income of $20,000 and contribute $9,000 or l during the year, you may deduct the entire carryover from 1981. However, if you contribute $9,500 during 1982, you may deduct only $500 of your carryover, carrying the balance over to 1983.

If you do not itemize deductions in any of the carryover years, you must reduce the carryover by the amount that would have been deductible had you itemized your deductions.

Example. You have a contributions carryover of $500 from 1980 to 1981. If your adjusted gross income is $10,000 for 1981, your deductible contributions for that year are $300, and you do not itemize deductions, you may not carry over the $500 to 1982. If you had itemized your deductions, the total of your contributions paid during 1981 plus carryovers to that year would have fallen below 50% of your adjusted gross income and would be deductible. Therefore, you must consider that your carryover was deducted in 1981.

Carryovers of capital gain property to which the 30% limit applies are subject to the 30% limit in the year to which they are carried over.

If you carry over contributions of 30% capital gain property and you choose in the next year to disregard the 30% limit and take appreciation into account, you must refigure the carryover by considering the appreciation, as if you had made the choice in the previous year, and reduce the result by the amount actually deducted in the previous year.

Example. You had an adjusted gross income of $50,000 in 1981. You contributed to a 50% charity 30% capital gain property valued at $20,000 with a basis of $15,000. Your deduction in 1981 is limited to $15,000 (30% of $50,000) and $5,000 is carried over as 30% capital gain property. In 1982, you have an adjusted gross income of $60,000 and you contribute 30% capital gain property valued at $25,000 with a basis of $20,000. You may choose to disregard the 30% rule, but you must take the appreciation into account in 1982 as well as in 1981. The deduction for 1982, before the carryover is considered, is $23,000 ($25,000 − $2,000, 40% of $5,000 appreciation). You refigure the carryover as if you had chosen to consider the appreciation in 1981. Disregarding the 30% rule, your deduction would have been $18,000 ($20,000 − $2,000, 40% of $5,000 appreciation). You actually deducted $15,000 in 1981. Therefore, your refigured carryover is $3,000 ($18,000 − $15,000). Your total deduction in 1982 is $26,000.

ASSIGNED PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 6 Itemized Deductions (Contributions, Casualty, Educational and Miscellaneous)

EXERCISES

1. Mr. Zee is itemizing his deductions on his individual tax return. He contributes $100 to a needy family. Which of the following may he claim as a contribution:

   A. $100 B. $50 C. $25 D. none

2. Mrs. Zee contributes her services to her church for 40 hours. Which of the following may she claim as a charitable contribution:

   A. 40 hours at minimum hourly wage rate
   B. 40 hours at her regular hourly wage rate
   C. 40 hours at 50% of her regular hourly wage rate
   D. none of the above

3. A taxpayer need not be concerned about the percentage limitations on deductible contributions unless the contributions are in excess of which percentage of AGI:

   A. 10% B. 20% C. 30% D. 50%

4. Jane Smith stopped at the store for groceries on her way home from work on July 14th. As she left the parking lot, her car was rear-ended by an uninsured driver. Her car, a 1977 Datsun, had a FMV of $4,300 before the accident and FMV of $3,200 after the accident occurred. Her vehicle sustained $900 in damages. When she arrived home she discovered that her apartment had been broken into. Her color TV console, which she purchased the Christmas before for $750 was missing. The FMV placed at the time of the theft was $600. Also missing was a bronze statuette she had purchased on June 12, 1972, for $500 and which now had a FMV of $800. The police were notified in both instances. What is her casualty and theft loss deduction on her Schedule A.

   A. $1,800 B. $4,000 C. $1,900 D. $4,300 E. $2,000

5. Gerry Mander is a seamstress for the Soam Dress Co. Her employer asked her to take a correspondence course in pattern making so she would have a better idea of dress construction. He said it would increase her skills and he had her in mind for a promotion.

The course cost $385. In addition, special supplies for the course cost her $38, and she had to spend $11 for postage mailing in the lessons for evaluation and grading.

What is her educational deduction, if any? If none, why not?

6. Woodie Miller is a logger who made a list of all the miscellaneous deductions he could think of for this year.

Union dues	$214
Traffic tickets (on the way to work)	60
Hard hat	6
Safety workshoes	45
Life insurance premiums	215
Preparation of a will	175
Dog license (to guard his car)	5

What is the total of his miscellaneous deductions?

7. When Woodie lost his job he heard of a logging company in Idaho that was hiring experienced men, so he drove there to see if he could get a job but they had already stopped hiring. His total mileage was 922 miles; he spent $56 for meals and $18 for motel.

How much will he deduct on Schedule A as a miscellaneous deduction?

8. Mr. & Mrs. Louis Youngman's broker charged them a fee of $16 to collect dividends on some stock they owned. Mrs. Youngman learned to drive so she could buy all their groceries one day a week. The lessons cost her $25 and she paid $7 for a driver's license.

Mr. Youngman was a good house painter but he thought he might like to open up a hobby shop instead. He placed ads in newspapers and magazines which cost him $48 but nothing came of it. So he bought another pair of coveralls ($12) and a pair of workshoes ($10) and went back to painting. His union dues were $110 for the year.

Mrs. Youngman hired a babysitter ($37) so she could learn macrame. The supplies cost her only $9 and she made a lovely hanging for their church.

What is their miscellaneous deduction?

9. John Halsey is an architect. He receives no reimbursement from his employer and asks you how much he can claim as deductible expenses.

T-square, pencils, drawing paper, etc.	$69
585 miles to inspect building sites	?
Subscription to Architectural Digest	48
Dues in the Architectural Society	120
Cost of physical checkup he feels he needs	75
Accident insurance against loss of income	172
Cost of cleaning his Army Reserve uniform which he is permitted (and required) to wear only when he attends reserve meetings.	30
868 miles to attend weekend reserve meetings	?

How much can he deduct as miscellaneous deductions?

10. During the year, taxpayer had AGI of $100,000 and made contributions to qualified charities as follows:

	BASIS	FMV
Cash	$5,000	$5,000
Inventory	3,000	4,000
Common stock	4,000	2,500

The charitable deduction allowed is:
A. $11,500 B. $12,000 C. $10,500 D. $5,000

11. If a taxpayer makes contributions to both 50% and 20% charitable organizations, any excess amounts contributed to the 20% charity are:

A. carried over to the next 5 years
B. carried back first to the last three years and then carried forward
C. no longer eligible to be claimed as deductions
D. carried over only to the next year

12. You may deduct contributions to which of the following organizations?
a. United Fund
b. Dawnrose Women's Club (nonprofit)
c. City of Apple Little Theatre Corporation (nonprofit;purpose is to provide high quality live plays, no employees)
d. Fieldcress Country Club (private)
e. Girl Scouts
f. American Legion
g. Lions Club (civic league) dues
h. St. Luke's Church
i. Spanish Vets (organized and created in Spain)

13. Seniors in the local high school make an annual trip to Washington, D.C. A teacher told Mr. Tulip that 10 of the children could not go because they did not have the money. Mr. Tulip donated $2,000 for distribution among the children who would not otherwise make the trip. May Mr. Tulip deduct the $2,000?

14. Mr. & Mrs. Good furnished full support for a foreign student in the 10th grade, who lived with them from September 20, 1980, through the end of the year. What is the maximum contribution deduction that they may claim for support of the foreign student?

15. On December 1, 1981, Ms. Rose, an accrual-basis taxpayer, pledged $500 to the local community chest, to be paid in 5 equal installments during the following 5 years. The first $100 payment was made on January 1, 1982. What amount may Ms. Rose deduct on her 1981 return? What is the proper deduction for 1982?

16. State the amount of deductible contributions based on the following:
   a. Mr. White gave old clothes, which cost him $850, to the Salvation Army. The fair market value of the clothes is $150.
   b. Mr. Lily's church sponsored a special movie for a charitable purpose. He paid $15 for the ticket. (Printed on the ticket: Contribution $15). The regular price of the movie is $2.50.
   c. Mr. Fir allows the Boy Scouts to use his house, rent free, for their monthly meetings.

17. Circle the letter of the following which are not deductible as casualty losses.
   a. Damage to a fur coat by moths
   b. Rust and water damage to rugs, carpets and drapes caused by a bursting water heater
   c. Damage to the water heater itself caused by normal deterioratation.
   d. Damage to a house caused by an earthquake
   e. Citrus trees killed by a sudden freeze

18. As Mr. Oak sawed down a tree in his yard, an unexpected gust of wind blew it on his neighbor's house. He paid to have his neighbor's roof repaired. Is this amount deductible as a casualty loss?

19. Dan and Ann Cottonwood went to a restaurant for dinner on June 18, 1981. A fire in the restaurant destroyed Dan's coat and Ann's fur stole. Dan's coat was valued at $95 and Ann's fur stole at $300. Both articles cost

more than they were worth at the time of the fire.

a. How much can Dan and Ann deduct if they file separate returns and itemize their deductions?

b. How much can they deduct if they file a joint return?

20. Mr. Weed's property had an adjusted basis of $20,000 immediately before a hurricane destroyed the ornamental trees. Before the hurricane, the property had increased in value. The fair market value of the property was reduced by the hurricane from $30,000 to $28,000. No insurance was involved. What is the amount of Mr. Weed's deductible loss?

21. Mr. and Mrs. Privet had a fire in their apartment which totally destroyed all of their belongings. They had no insurance. A list of their belongings, showing the cost and the fair market value (just before the fire) of each article, appears below. Figure their casualty loss deduction, if any.

	COST	FMV
Living room furniture	$3,000	$1,000
Kitchen appliances	800	400
Bedroom furniture	1,500	600
Men's clothing	1,000	300
Women's clothing	3,000	900
Oil paintings	300	4,000
Coin collection	200	1,500
	$9,800	$8,700

22. Indicate whether the following are deductible or not deductible as educational expenses.

a. Ms. Fir was employed as a patent chemist on the condition that she get a law degree at her own expense. She enrolled in evening law school. When she graduated from law school, she was promoted to patent attorney with a substantial increase in salary.

b. Mr. Pine owns an accounting practice and took several courses in taxation and tax accounting.

c. Mr. Maple, a salesman for X Company, was required by his employer to take a public speaking course at his own expense as a condition to retain his position.

d. Mrs. Oak, an elementary school teacher, took additional courses to qualify her to teach mathematics in high school.

e. Mr. Birch, an automobile mechanic, took business and accounting courses to become an accountant.

23. Mr. Elder, a painter, paid $400 for clothing and $50 for shoes. His union requires him to wear white work clothing and standard work shoes. Because of the nature of his work, the clothing and shoes become so soiled that he cannot possibly wear them anywhere else. Can he deduct their cost?

24. Mr. Woodland, and outside salesman, is required to do some clerical work at his residence. He uses his den as an office on the average of 2 hours per day, and the remainder of the time the den is available for family use. Could Mr. Woodland deduct the part of his household expenses related to the business use of the den?

25. Louise Cypress, an engineer, paid the following expenses in 1981:

a.	Engineers' Guild dues	$90
b.	Architecture courses Louise took because she felt they could broaden her career opportunities	1,500
c.	Cost of typing and copying a resume which Louise used to seek a job as a part-time architect	38
d.	Subscriptions to engineering publications	60
e.	Traffic fine	25
f.	Hard hats and protective shoes required while she supervizes job sites	45
g.	Lawyer's fees related to Louise's divorce hearing	300
h.	Lawyer's fees related to Tax Court proceedings appealing a deficiency on Louise's 1976 income tax return	125
i.	Life insurance premiums	240

Figure Louise's miscellaneous deductions for 1981.

Situation 1:

Adam and Frances Oliver, SS# 506-81-7500 had an AGI of $13,465 and made these donations:

Church tithing: $1,347; Cancer Telethon $15; Child gave $26 at Sunday School and $15 to Children's hospital.
Driving to church services: 543 miles
Old clothing and furniture to Goodwill: Cost; $498; FMV, $196
Frances drove 922 miles doing charity work for their church
Loan to church for new building: $300
Pledges to Church Building Fund: $450, of which $250 was paid during the year.
Complete Schedule A.

Situation 2:

Russell and Peaches Davidson have a contribution carryover of $322 form last year. Their AGI is $17,400 and they have receipts for the following:

Church	$2,600
United Fund	215
Kidney Association	8
Appalachia Foundation	5
Muscular Dystrophy	5

Russell is a volunteer Little League umpire and had to buy an official cap and protective clothing: $89.

They gave 10 shares of stock to the Society for the Prevention of Cruelty to Animals. The stock cost them $5 a share in 1971 and the Stock Exchange report showed they were worth $20 a share on the day they made the donation. What are the contributions allowed on Schedule A?

Situation 3:

Lindsay Carlin had an AGI of $10,000 for the tax year. He donated $4,000 to the Second Baptist Church.

Lindsay bought a $25 raffle ticket from the Also Qualifying Foundation. He didn't win anything, but carefully saved his losing ticket as a receipt.

He donated one pint of blood to the Blood Bank; FMV $15. One of the pews in the church needed repair so he donated 4 hours of his time to repair it, which he valued at $6 an hour. What are his contribution deductions?

Situation 4:

Zinna Fobia said a careless smoker caused a fire in her home which completely destroyed her harp and damaged her zither and plectrum.

The harp cost $3,000, FMV before the fire was $2,500. The zither and plectrum cost $250, FMV before the fire was $225, FMV after the fire was $50.

Her insurance adjuster told her the insurance company would send her $1,875 for the harp and $125 for the zither and plectrum. Zinna's insurance policy had a rider covering musical instruments with a maximum of $2,000.

Complete Form 4684 through line 14.

Situation 5:

Ty Kwando bought a movie camera in March for $365. He didn't get around to having it insured before someone stole it; this was in June when the FMV was $295. The police were on the lookout, but it was never found.

On July 5 he was pulling his boat on a trailer along the Columbia River Gorge when a strong wind gust twisted the trailer so that it became unhitched and overturned. He had bought them both in 1975, paying $12,000 for the boat and $1,000 for the trailer. FMV before the accident: boat $9,500; trailer $900.

It cost him $300 to repair the trailer, and $5,600 to fix the boat to the original condition before the accident. His insurance reimbursed him $160 for the trailer and $4,750 for the boat.

Complete Form 4684.

Situation 6:

Phil Ippic bought a negotiable stock certificate for $1,150. On 10/4/81 it was worth $1,800 when it was stolen and he received $850 as insurance proceeds. (He had been holding it as property for the production of income. He had purchased the certificate 2-3-78.)

He was involved in a car accident. He paid $45 for towing the lady's car to the garage, and it cost him $85 to have his own car repaired. He had no insurance. Worse yet, he was found guilty of willful negligence.

Complete Form 4684. Additional information follows.

Phil decided to by a new car so he signed a contract at Goodtime Charley's for $3,850. On his way home he stopped in at Cheaper's and found exactly the same car for $3,600. He tried to get Charley to come down, but was unsuccessful, so he lost $250 on the deal.

When he arrived home he discovered some shrubs had died in the bad freeze the night before. He had paid $110 for them. A real estate appraiser said the property was worth $43,000 without the shrubs and $43,500 with them.

PROBLEM
Session 6: Itemized Deductions (Contributions, Casualty, Educational and Miscellaneous)

Ima Taxpayer, age 44, SS# 321-54-9876 resides at 124 N.E. Terrace Ct., Multnomah County, Portland, OR 97222 with her son James, age 20. She is not married and does not wish to claim James because he earned $5,000 during the year. Ima is a school teacher with the Portland School District and her W-2 shows the following:

Fed. W/H	Wages	FICA	State W/H
$2,340	16,000	$1,064	$1,240

Ima itemized her deductions the previous year and received a state refund of $112. (Last year's Schedule A shows state tax deduction as $510 and excess itemized deductions as $900).

In addition to her salary she received the following:

Teacher Credit Union dividend	$150
Mutual Fund dividends	100
All Savers Qualifying Interest (Fred Meyer)	500
N.Y. Life Insurance Dividends	26
Interest	30

She has the following to itemize:

Medical insurance	310
Drugs & medicines	150
Dr. Sew	80
Dr. Hypo (for James)	55
Lab fees	25
Medical transportation 200 miles	?
Penneys, finance charge on installment payments	68
Wards, finance charge on installment payments	110
VISA finance charge	76
Teacher's Credit Union loan interest \	220
Church, receipted	200
Church, cash	25
UGN, payroll deduction	48
Personal car used for volunteer church work, 1,000 miles	?
Union dues	80
Tax preparation fee	35
Vocational supplies	65

From July 15 to August 15, Ima attended 8 classes sponsored by the Portland School District at PCC where she normally taught. The course subject was Communication Skills. Her educational expenses were: tuition $150; books and supplies $75.

On November 14th she purchased a stereo and speakers for $470. Enroute home from the purchase she stopped at a friend's home and while visiting, thieves broke into her car and stole the stereo and speakers. Police were notified.

Ima does not wish to contribute to the Presidential Election Campaign Fund.

Ima has no interest in any foreign banks or trusts. Prepare her federal individual income tax return Form 1040, and necessary Schedules.

SESSION 7

INCOME TAX COMPUTATIONS

TAXPREPARER LICENSING LAW

IRS PRACTITIONER LAW

Reading Assignment: Publication 17, Chapter 33, Review Chapter 1
Oregon Income Tax Services Law and Code of Professional Conduct
Privacy Act Notification, Disclosure IRS Code Section

A. VOCABULARY

- Averageable income
- Base years
- Board of Tax Service Examiners
- Computation year
- Income averaging
- Licensed Tax Consultant
- Tax preparer
- Tax rate schedules
- Tax tables

B. INTERVIEW QUESTIONS

1. Has your income significantly increased over prior years?
2. Has your marital status changed in the past 5 years?
3. Have your exemptions reduced in the last five years?
4. Or have your deductions lessened, thereby increasing your taxable income?
5. Does the client meet the tests to qualify for averaging?

NOTE:

As a tax preparer, you should **ALWAYS** review the tax return filed by the taxpayer the previous year. This gives you information as to:

1. Types of income;
2. Types of deductions;
3. Dependents, addresses, Social Security numbers, telephone numbers;
4. State additional payments or refunds and the taxability of any refunds;

As a further hint: Ask to review the clients prior four year's returns to gain the income averaging information to include in your file. If the taxpayer does not have copies, and income averaging is a possibility, have the client request copies from IRS (Form 4506).

Tax Computation

Line 32a

Enter the amount from line 31.

Line 32b

You will fall into one of the three classes below:

- You MUST itemize deductions, or
- You choose to itemize, or
- You do not itemize.

The three classes are described below.

You MUST Itemize Deductions

You must itemize deductions if:

A. You can be claimed as a dependent on your parents' return and had interest, dividends, or other unearned income of $1,000 or more. Generally, this means that you must complete Schedule A and the worksheet on this page.

There are two exceptions to this rule:

1. You don't have to itemize or complete Schedule A or the worksheet if you have earned income* of $2,300 or more if single ($1,700 or more if married filing a separate return). Enter zero (0) on line 32b and go on to line 32c.
2. You don't have to itemize and use Schedule A if you know that your earned income* is more than your itemized deductions. In this case go directly to the worksheet below after completing line 32a of Form 1040.

Note: *If your unearned income is less than $1,000, you don't have to use Schedule A or the worksheet—enter zero (0) on line 32b and go on to line 32c.*

In any case, be sure to check the box on line 32b.

B. You are married, filing a separate return, and your spouse itemizes. (There is an exception to this rule: You don't have to itemize if your spouse is described in item A above and enters earned income* instead of itemized deductions when completing the worksheet.)

C. You file Form 4563 and exclude income from sources in U.S. possessions. (Please see Form 4563, and Publication 570, Tax Guide for U.S. Citizens Employed in U.S. Possessions, for more details.)

D. You had dual status as a nonresident alien for part of 1981, and during the rest of the year you were either a resident alien or a U.S. citizen. However, you do not have to itemize if you file a joint return with your spouse who was a U.S. citizen or resident at the end of 1981 and you and your spouse agree to be taxed on your combined worldwide income.

After you've completed Schedule A:

a. If Schedule A, line 40, is more than line 39, do not fill in Form 1040, line 32b. Go to the worksheet instead and complete it to figure the amount to enter on Form 1040, line 32c.

b. If Schedule A, line 39, is more than line 40, enter the amount from Schedule A, line 41, on Form 1040, line 32b.

Worksheet

1 Enter the amount from Form 1040, line 32a . . . . ________

2 If you checked Form 1040, Filing Status Box:
2 or 5, enter $3,400 . . . .
1 or 4, enter $2,300 . . . . ________
3, enter $1,700 . . . . . .

3 Enter the amount from Schedule A, line 39 . . . . ________
Caution: If you can be claimed as a dependent on your parents' return, see A to the left. Be sure you check the box below line 32b of Form 1040.

4 Subtract line 3 from line 2 . . . ________

5 Add lines 1 and 4. Enter here and on Form 1040, line 32c. (Leave Form 1040, line 32b blank. Disregard the instruction to subtract line 32b from line 32a. Follow the rest of the instructions for Form 1040, line 32c). ________

The example below may help you to complete the worksheet.

Example.—Walter Green, a single individual, is claimed as a dependent on his parents' return. Walter's adjusted gross income, Form 1040, line 32a, is $4,000. Of this amount, $1,500 was earned income from a summer job and $2,500 was unearned income that he received as a beneficiary of a trust. Because Walter is being claimed as a dependent on his parents' return and has unearned income of $1,000 or more and earned income of less than $2,300, he must use the worksheet. Walter knows that his total itemized deductions are only $500. Since this is less than his earned income ($1,500), he does not have to complete Schedule A. Walter enters $2,300, the zero bracket amount for a single individual, on line 2 and his earned income on line 3. He completes the worksheet as shown below and enters the total of $4,800 on Form 1040, line 32c. He then completes his return using the instructions that follow.

1 Adjusted gross income . . .		$4,000
2 Zero bracket amount for a single individual . .	$2,300	
3 Earned income . . .	1,500	
4 Subtract line 3 from line 2 . .		800
5 Add lines 1 and 4. Enter here and on Form 1040, line 32c . .		$4,800

Note: ***If Walter's itemized deductions are more than his earned income, he must complete Schedule A first.***

Earned income is income you receive for personal services you have performed. It includes wages, salaries, tips and professional fees.

Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 11, and 18.

Earned income does not include pay for your services that included a distribution of earnings and profits other than reasonable compensation for your work for a corporation.

If you were engaged in a trade or business in which both your services and capital were important income-producing factors, your earned income will be based on a reasonable allowance for the services you performed. However, the earned income may not be more than 30 percent of your share of the net profits from the business.

You Choose to Itemize

You may choose to itemize your deductions if you are:

- Married and filing a joint return, or a Qualifying widow(er) with dependent child, and your itemized deductions are more than $3,400.
- Married and filing a separate return, and your itemized deductions are more than $1,700.
- Single, or a Head of household, and your itemized deductions are more than $2,300.

If you do itemize, complete Schedule A and enter the amount from Schedule A, line 41, on Form 1040, line 32b.

Caution: *Certain taxpayers must itemize even though their itemized deductions are less than the amount shown here for their filing status. See "You MUST Itemize Deductions" on page 12.*

You Do Not Itemize

If your itemized deductions are less than the amount shown above for your filing status (or you choose not to itemize), enter zero on line 32b unless you MUST itemize as described on page 12.

Line 32c

Subtract line 32b from line 32a. Remember—if you completed the worksheet, the amount on line 32c will be the amount from line 5 of the worksheet and line 32c will be more than line 32a.

Line 33

Exemptions

Multiply $1,000 by the total number of exemptions you claimed on line 6e.

Line 34

Taxable Income

Subtract line 33 from line 32c.

Line 35

Tax

To figure your tax, you will use one of the following methods. Read the conditions below to see which you should use.

Tax Rate Schedules

You must use the Tax Rate Schedules to figure your tax if your taxable income is $50,000 or more.

Also use the Tax Rate Schedules if you figure your tax using any of the methods listed below.

Alternative Tax, Schedule D.—If you have a net long-term capital gain, you may pay less tax by using this method. Please get Schedule D to see if you qualify.

Income Averaging, Schedule G.—You may pay less tax by using this method if there has been a large increase in your income this year. Get Schedule G to see if you qualify.

Maximum Tax on Personal Service Income, Form 4726.—If part of your income was for personal services you performed, you may get a tax benefit by using this method. The tax on this income is limited to a maximum rate of 50 percent. You should get Form 4726 for more information if your taxable income, or personal service taxable income, was over:

a. $41,500 and you checked Form 1040, Filing Status Box 1, OR
b. $60,000 and you checked Form 1040, Filing Status Box 2 or 5, OR
c. $44,700 and you checked Form 1040, Filing Status Box 4.

You can't use Form 4726 if you checked Form 1040, Filing Status Box 3.

Tax Table

If none of the above conditions apply to you, you MUST use the Tax Table to find your tax.

Be sure you use the correct column in the Tax Table. After you have found the correct tax, enter that amount on line 35.

There is an example at the beginning of the table to help you find the correct tax.

The allowance for the zero bracket amount and the rate reduction credit have already been built into the Tax Table for you.

Line 36

Additional Taxes

Use this line to report any of the additional taxes listed below. Check the box(es) on line 36 for the taxes that apply to you.

Form 4970, Tax on Accumulation Distribution of Trusts.

Form 4972, Special 10-Year Averaging Method.

Form 5544, Multiple Recipient Special 10-Year Averaging Method.

Section 72(m)(5) penalty tax. If you are or were an owner-employee and received income from a premature or excessive distribution from a Keogh (H.R. 10) plan or trust, you will have to pay a penalty tax of 10 percent of the distribution. The penalty is in addition to the regular income tax. (Note: Only the credits on lines 38, 39, 40, and 45 can be used to reduce this tax. On a separate sheet, show how you applied any of these credits.) See **Publication 560**, Tax Information on Self-Employed Retirement Plans, for more details.

Residence Credit Recapture. If you claimed the credit for a new residence in 1976, and sold it in 1979, you may have to repay the credit in 1981. See **Publication 523**, Tax Information on Selling Your Home, for more details. If you must repay the credit in 1981, include it in your total for line 36. On the dotted line next to this total, please write "Residence Credit Recapture" and show the amount.

Line 37

Total

Add lines 35 and 36. Enter the total on line 37.

INCOME AVERAGING

Eligible Individual

You are eligible to figure the tax under the income averaging method only if you (and your spouse if you file a joint return for the computation year) meet two tests.

Income averaging is available only to individuals, not to corporations or partnerships.

Citizenship or residence test. You must have been either a U.S. citizen or resident of the United States throughout the computation year (that is, your current tax year), and base-period years (that is, the four immediately preceding tax years).

Support test. You must have furnished 50% or more of your own support during each of the 4 base period years. If you file a joint return, both you and your spouse must meet the support test.

Exceptions to support test. The support test does not apply in the following three situations

1) You were 25 years or older in the computation year and were not a full-time student during at least 4 tax years beginning after the year you became 21 years old and ending with the computation year. This means that if you are age 25 or more and had been out of school as a full-time student for 4 years since the age of 21, you need not considered the support test in determining eligibility for income averaging. You are considered a full-time student during a tax year only if, during each of 5 calendar months (not necessarily consecutive) of the tax year, you were enrolled for the number of hours of courses required for full-time attendance.
2) More than half of your taxable income for the computation year is attributable to work performed in substantial part during 2 or more base period years. It is not necessary that any of the work be performed in the computation year.
3) You file a joint return and your spouse does not meet the support test. The test will not apply to your spouse if 25% or less of the combined adjusted gross income of both you and your spouse, in the computation year, is attributable to your spouse.

Example 1. John Smith, an unmarried U.S. citizen, was born February 28, 1952, and completed college in June 1973, at which time he entered and remained in military service until August 1975. In September 1975, he returned to the university where he continued to be a full-time student until June 1978, when he obtained full-time employment. While in school, John furnished less than half of his own support. Assuming he qualifies in other respects, John may choose the income averaging method for 1980 whether he meets the support test or not, because he had reached age 25 before his computation year and because he has not been a full-time student for at least 4 of his tax years beginning after 1973, when he reached age 21 (1974, 1975, 1979, and 1980).

Example 2. Veronica Farrell, an unmarried U.S. citizen was born February 28, 1951. She entered college in January 1973 as a full-time student and left college in June 1973 She then entered and remained in military service until September 1975.

In September 1975, she returned to the university where she continued to be a full-time student until June 1978 when she obtained full-time employment in August. While in school, Veronica furnished less than half of her own support.

Assuming she qualifies in other respects, the first year Veronica may choose the income averaging method without regard to the support test is 1980, explained as follows

1973—Full-time student (at least 5 months of year)

1974—Not a full-time student (military service)

1975*—Not a full-time student (in service until September)

1976—Full-time student

1977—Full-time student

1978—Full-time student (at least 5 months of year)

1979—Not a full-time student

1980—Not a full-time student

*Veronica a student only 4 months of year in 1975.

Veronica may choose the income averaging method in 1980, since that year ends after she reached age 25 (she is 29 years old in 1980) and she was not a full-time student for at least 4 of her tax years beginning after she reached age 21 in 1972 (1974, 1975, 1979, and 1980).

Remember, the 4-year period beginning after the year Veronica became 21 years old ends with the computation year (in this case 1980). See Exception 1 of support test

Keep in mind that Veronica would use the 4 years immediately preceding the computation year of 1980, as her base years. That is—1979, 1978, 1977, and 1976.

It makes no difference that Veronica was a student during any of her base years, for example, 1978, as long as she is now age 25 or more, and she was not a full-time student for at least 4 years after the age of 21.

Marital and Filing Status *(For use in income averaging only)*

Marital status and filing status in Computation Year	Marital status and filing status in Base Period Year	Computation of Base Period Income
Single	Single	Adjust your taxable income as discussed under *Base Period*
Single	Married, separate return	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*. See also footnote 1.
Single	Married, joint return	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*. See also footnote 1.
Married, separate return	Single	Larger of amounts figured under Methods (1) and (3) as discussed under *Minimum Base Period Income*. See also footnote 2.
Married, separate return	Married to same spouse, separate return	Larger of amounts figured under Methods (1) and (3) as discussed under *Minimum Base Period Income*. See also footnote 2.
Married, separate return	Married to same spouse, joint return	Larger of amounts figured under Methods (1) and (3) as discussed under *Minimum Base Period Income*. See also footnote 2.
Married, separate return	Married to different spouse, separate return	Largest of amounts figured under Methods (1), (2), and (3) as discussed under *Minimum Base Period Income*. See also footnotes 1 and 2.
Married, separate return	Married to different spouse, joint return	Largest of amounts figured under Methods (1), (2), and (3) as discussed under *Minimum Base Period Income*. See also footnotes 1 and 2.
Married, joint return	You were single; Your spouse was single	Adjust your taxable income as discussed under *Base Period;* adjust taxable income of spouse in same manner; add results to get joint base period income.
Married, joint return	You were single; Your spouse was married and filed separately	Adjust your taxable income as discussed under *Base Period;* your spouse uses larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*, add results to get joint base period income.
Married, joint return	You were single; Your spouse was married and filed joint return	Adjust your taxable income as discussed under *Base Period;* your spouse uses the larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income;* add results to get joint base period income.
Married, joint return	Married to same spouse, filed separately	Adjust your and your spouse's taxable income as discussed under *Base Period;* add results to get joint base period income.
Married, joint return	Married to same spouse, filed a joint return	Adjust your joint taxable income as discussed under *Base Period*.
Married, joint return	Married to different spouse, filed separately; Present spouse was single	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income;* adjust taxable income of spouse as discussed under *Base Period;* add results to get joint base period income.
Married, joint return	Married to different spouse, filed separately; Present spouse was married, filed separately	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*, your spouse uses larger of amounts figured under Methods (1) and (2); add results to get joint base period income.
Married, joint return	Married to different spouse, filed separately; Present spouse was married, filed joint return	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*, spouse uses larger of amounts figured under Methods (1) and (2); add results to get joint base period income.
Married, joint return	Married to different spouse, filed joint return; Present spouse single	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income;* adjust spouse's taxable income as discussed under *Base Period ;* add results to get joint base period income.
Married, joint return	Married to different spouse, filed joint return; Present spouse married, filed separately	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*, your spouse uses the larger of amounts figured under Methods (1) and (2); add results to get joint base period income.
Married, joint return	Married to different spouse, filed joint return; Present spouse married, filed joint return	Larger of amounts figured under Methods (1) and (2) as discussed under *Minimum Base Period Income*, your spouse uses larger of amounts figured under Methods (1) and (2); add results to get joint base period income.

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[1] Under Method (2), the separate income and deductions of the person to whom you were married in that base year must be figured for that base period year.

[2] Under Method (3), the separate income and deductions of the person to whom you were married in the computation year must be figured for the base period year

IRS CODE SECTION 7216 - DISCLOSURE OR USE OF INFORMATION BY PREPARERS OF RETURNS

A. General Rule. Any person who is engaged in the business of preparing, or providing services in connection with the preparation of, returns of the tax imposed by Chapter I, or declarations or amended declarations of estimated tax under section 6015, or any person who for compensation prepares any such return or declaration for any other person, and who --

1. discloses any information furnished to him for, or in connection with, the preparation of any such return or declaration, or
2. uses any such information for any purpose other than to prepare, or assist in preparing, any such return or declaration, shall be guilty of a misdemeanor, and upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

B. Exceptions:

1. Disclosure. Subsection (a) shall not apply to a disclosure of information if such disclosure is made --

   a. pursuant to any other provision of this title, or
   b. pursuant to an order of a court.

2. Use. Subsection (a) shall not apply to the use of information in the preparation of, or in connection with the preparation of, State and local tax returns and declarations of estimated tax of the person to whom the information relates.
3. Regulations. Subsection (a) shall not apply to a disclosure or use of information which is permitted by regulations prescribed by the Secretary or his delegate under this section.

PRIVACY ACT NOTIFICATION

The Privacy Act of 1974 provides that each Federal Agency inform individuals, who it asks to supply information, of the authority for the solicitation of the information and whether disclosure of such information is mandatory or voluntary; the principal purpose or purposes for which the information is to be used; the routine uses which may be made of the information; and the effects on the individual of not providing the requested information. This notification applies to the U.S. Individual Income Tax Returns, to declarations of estimated tax, to U.S. Quarterly Gift Tax Returns, and to any other tax return required to be filed by an individual, and to schedules, statements, or other documents related to the returns, and any subsequent inquiries necessary to complete, correct, and process the returns of taxpayers to determine the correct tax liability and to collect any unpaid tax, interest, or penalty.

The Internal Revenue Code requires every person liable for any tax imposed by the Code to make a return or statement according to the forms and regulations prescribed by the Internal Revenue Service (sections 6001 and 6011 and the Regulations pertaining thereto). Individuals required to make returns, statements, or other documents shall include their Social Security Numbers to provide proper identification and to permit processing the returns (section 6109 and the Regulations pertaining thereto).

The principal purpose for soliticiting tax return information is to administer the Internal Revenue laws of the United States. This includes the determination and collection of the correct amount of tax. In addition, with respect to U.S. Individual Income Tax Returns, IRS is soliciting information concerning place of residence for the Bureau of the Census for revenue-sharing and other Census purposes. The completion of all appropriate items requested by the return forms and related data is mandatory except for the Presidential Election Campaign Fund designation on the U.S. Individual Income Tax Returns, which is voluntary.

The Code provides penalties for failure to file a return, failure to supply information required by law or regulations, failure to furnish specific information required on return forms or for furnishing fraudulent information. Other effects of not providing all or part of the requested information may include the disallowance of claimed exemptions, exclusions, credits, deductions, or adjustments resulting in increased tax liability, the loss of Social Security credits, loss or delay in issuance of a refund for overpayment, interest and penalty charges on unpaid taxes, and other disadvantages to the taxpayer.

The routine uses which may be made of tax return information include disclosure to the Department of Justice in connection with actual or potential criminal prosecution or civil litigation; to other Federal Agencies; to States; the District of Columbia, the Commonwealth of Puerto Rico, or possessions of the United States to assist in the administration of their tax laws; to other persons in accordance with and to the extent permitted by law and regulations; and to foreign governments in accordance with treaties.

Further information concerning the requirements for filing returns and furnishing information may be obtained from any Internal Revenue Service office.

This will be the principal notification under the Privacy Act of 1974, concerning the solicitation of information in connection with any tax return or tax liability of an individual. Additional notices may be given (but are not required) with respect to specific information requests during the course of tax administration activities such as audit, investigation or collection of any tax, interest, or penalty. Please retain this notification with your tax records and refer to it any time you are requested to furnish additional information.

Information for Preparers

Objectives

After you have read this chapter you should know:

The definition of a preparer.

The duties and responsibilities of a preparer.

The penalties for preparers.

The disclosure and use requirements.

The obligation of the taxpayer.

Introduction

The Internal Revenue Code formerly contained few provisions relating to the conduct of persons who prepared income tax returns for others for a fee. The Tax Reform Act of 1976 added provisions to the Code which provide disclosure requirements and standards of conduct which apply to income tax return preparers. This chapter will discuss the role tax return preparers play within the tax system. In addition, the various duties, responsibilities and obligations of preparers will be explained.

Background

A substantial increase in the number of persons who prepare income tax returns, and the rapid growth of professional and commercial preparation of tax returns led to a number of problems for the Internal Revenue Service. Some abuses arose in the preparation of wage earners' returns. For example, some return preparers made guarantees that individuals would obtain a refund because of the tax expertise of the preparer. In other cases, preparers suggested that a taxpayer sign a blank return (that is, before it was prepared). Thus the taxpayer did not look at the return or review it before it was filed. In some cases the preparer either claimed fictitious deductions or increased the number of exemptions claimed in order to achieve the refund or tax liability promised the taxpayer.

Under prior law, it was difficult for the Internal Revenue Service to detect any individual case of improper preparation because the preparer was not required to sign the return. Thus, the Service had no way of knowing whether the return was prepared by the taxpayer or by a preparer who could be engaging in abusive practices involving a number of returns.

The Service needed help in detecting incorrect returns prepared by tax return preparers, and in deterring preparers from engaging in improper conduct. The Code now includes provisions requiring tax return preparers to maintain and disclose to the Internal Revenue Service, on request, certain information, and subjecting preparers to penalties for failure to comply with the information requirements and for improper conduct in the preparation of returns.

Preparer

A preparer is any person who prepares an income tax return or claim for refund for compensation (money) or who employs one or more persons to prepare returns or claims for refund. The preparation of a substantial portion of a return or claim is considered preparation of that return.

A person who furnishes to a taxpayer or other preparer sufficient information and advice so that completion of the return or claim for refund is largely a mechanical or clerical matter is considered an income tax return preparer, even though that person does not actually place or review placement of information on the return or claim for refund.

Exceptions. A person is *not* an income tax preparer merely because that person performs any of the following services:

1) Furnishes typing, reproduction service, or other mechanical assistance;
2) Prepares a return or claim for an employer, or a partnership, which regularly and continuously employs the individual, or in which the individual is a partner;
3) Prepares a refund claim after an IRS examination of a return (audit).
4) Provides tax assistance under a Volunteer Income Tax Assistance (VITA) program established by the Internal Revenue Service;
5) Sponsors or administers a Volunteer Income Tax Assistance (VITA) program established by the Internal Revenue Service, but only with respect to that sponsorship or administration;
6) Provides tax counseling for the elderly under the Revenue Act of 1978; and
7) Sponsors or administers a program to provide tax counseling for the elderly under the Revenue Act of 1978, but only with respect to that sponsorship or administration.

Place of the Preparer in the Tax System

For many reasons, a large number of taxpayers feel unable to prepare their own tax returns. The Service offers free taxpayer assistance, but limitations in budget and facilities, especially at the peak demand period just before April 15 each year, place tremendous strains on its resources.

Many business people have their tax returns prepared by professional accountants, C.P.A.'s, attorneys, and others retained for counsel in other business areas. Many persons in business, and a large number of wage earners, however, do not have access to these professionals. Also, many taxpayers prefer having an independent person knowledgeable in taxes prepare their returns for them.

Demand in prior tax years for help in preparing tax returns has demonstrated that the Service or recognized professionals such as C.P.A.'s and attorneys cannot provide all the needed assistance. The bulk of this assistance is needed in preparing individual income tax returns.

Duties and Responsibilities of Preparers

A preparer must furnish a copy of the return or claim for refund to the taxpayer, must sign the return and furnish an identifying number, and must retain a copy of each return or claim, or a record of all returns and claims prepared.

Copy of return. A copy of the completed return or claim for refund must be furnished to the taxpayer no later than the time the return or claim is presented for the taxpayer's signature. When the return or claim is prepared for a nontaxable entity such as a partnership or a Subchapter S corporation, the return or claim is to be presented to the entity's representative.

Signature and identifying number. The return or claim for refund must be signed by both the taxpayer and the return preparer. The preparer must manually sign the form. Signature stamps or labels are not acceptable.

If more than one person prepares the form, the individual with primary responsibility for overall accuracy must sign as preparer. The social security number of the preparer should be entered to the right of the signature. If the preparer is self-employed, the letters "SE" should be entered to the right of the social security number.

If the individual is paid by another to prepare the form, or if he or she is a partner in a partnership retained to prepare the form, the employer's or partnership's name and identification number must be entered below the signature line.

The return must also show, below the preparer's signature, the address of the preparer's place of business where the return was completed. However, if this place of business is not maintained on a year-round basis, the return should show the address of the preparer's principal business location which is maintained on a year-round basis, or, if none, the preparer's residence.

Retaining copies of returns or a record. A preparer must retain copies of the returns or claims prepared, or a record, by list, card file, or otherwise, of the name, taxpayer identification number, and year and type of return or claim filed.

The record must be kept for a period of 3 years after the close of the return period. A return period is from July 1 through June 30 of the following year.

List of preparers. Employers must maintain a record of the names, social security numbers, and principal places of work for preparers employed or engaged. Any preparer who is not an employee is considered to be his or her own employer and must also maintain the record. The record must be kept for inspection by the Internal Revenue Service upon request.

Penalties

A preparer may be subject to certain penalties.

Understatement of liability. There is a $100 penalty for each return or claim on which an understatement of liability is caused by negligent or intentional disregard of rules and regulations. The penalty is $500 if the understatement is a willful attempt to understate the liability.

Negotiation of check. There is a penalty of $500 for each check pertaining to income taxes which any return preparer endorses or negotiates, directly or through an agent (unless the check is issued to the preparer as a refund of the preparer's own taxes).

Failure to comply with reporting requirements. Any employer-preparer who is required to keep a record of each preparer employed and does not do so will be assessed:

1) A penalty of $100 for each failure to retain and make available a record of the preparers employed (or engaged) during a return period, and
2) A penalty of $5 for each failure to include a required item in the record required to be retained and made available.

The maximum penalty imposed on any person for failure to retain and make available a record of the preparers is $20,000 for the return period.

These penalties will be imposed unless it can be shown that failure to comply was due to reasonable cause and not due to willful neglect.

Other Penalties

There are other penalties that also may apply.

There is a penalty of $25 for each failure to:

1) Furnish a copy of the return to the taxpayer;
2) Sign the return; or
3) Furnish an identifying number.

There is a penalty of $50 for each failure to retain a list of taxpayers or a copy of each return or claim for refund.

The preceding penalties will be imposed unless it can be shown that the failure was due to reasonable cause and not due to willful neglect. These penalties are in addition to any other penalties provided by law.

Improper Disclosure or Use of Information

It is a misdemeanor to disclose information obtained in the process of preparing a tax return, or to use that information for any purpose other than to prepare the return. Improper disclosure or use is punishable by a fine of up to $1,000, imprisonment of up to one year, or both, plus the cost of prosecution. The law covers preparers and persons who provide services in connection with the preparation of tax returns (such as typists and bookkeepers).

Exceptions. A disclosure is not improper if the disclosure was made:

1) Under any other provision of the Internal Revenue Code or Income Tax Regulations;
2) In the preparation of a tax return of a second taxpayer based upon information received from a first taxpayer if:
    a) The second taxpayer is related to the first taxpayer (such as husband and wife, parent and child, grandchild and grandparent, partner and partnership, etc.);
    b) The first taxpayer's tax interest in the information is not adverse to the second taxpayer's interest in the information; and
    c) The first taxpayer has not prohibited the disclosure or use;
3) In response to a court order or administrative order, demand, summons or subpoena by any federal regulatory agency;
4) To the preparer's attorney, employee of the Internal Revenue Service, or officer of the court in connection with an investigation of the preparer by Internal Revenue or court proceedings involving the preparer;
5) In the normal practice of accounting or law by the preparer if the preparer provides the taxpayer accounting or legal assistance other than return preparation. Thus, an accountant who prepares the taxpayer's return and also provides general accounting services may disclose tax return information in connection with the preparation of books and records (This includes other members of the law or accounting firm as well as their employees);
6) In the preparation of state or local tax returns and declarations of estimated tax of the person to whom the information relates; and
7) In disclosing tax return information to proper federal or state officials in order to inform them of activities which may constitute violation of federal or state criminal laws.

Additional exceptions to the general disclosure rules may be in the Income Tax Regulations issued by the Secretary of the Treasury.

Injunctions

If a preparer engages in conduct that substantially interferes with the proper administration of internal revenue laws, the Internal Revenue Service may seek an injunction prohibiting that preparer from engaging in specific practices or from acting as an income tax preparer.

Taxpayer Obligations

The preparer of a tax return has certain obligations. However each person is ultimately responsible for the information on his or her own return.

The Service relies on the American people to know and meet their tax responsibilities. This is our system of voluntary compliance. Most taxpayers, either with or without help, figure their own income tax as part of this program of voluntary compliance. This is known as self-assessment. Still, there are some people who deliberately report incorrect income.

The principal purpose of the Internal Revenue Service is to insure compliance with the tax laws. The investigation of taxpayers who attempt to evade their taxes is one of the functions of the Service in accomplishing this purpose. The public must have confidence that appropriate corrective action will be taken when such offenses take place.

There are civil and criminal penalties for failing to live up to certain tax obligations. The following are actions for which an individual may be held responsible.

Civil tax fraud occurs when a taxpayer acts in bad faith with an intent to evade tax. The penalty for tax fraud is 50 percent of the amount of the underpaid tax.

Evasion is a criminal act and anyone convicted of it can be fined up to $10,000, imprisoned for up to 5 years, or both. The cost of the prosecution is also included.

A willful attempt to evade tax is needed in order to recommend a criminal prosecution.

The term attempt implies the necessity for some affirmative action or the commission of some overt act. For tax fraud purposes, the attempt is completed when the taxpayer's false return is filed. The filing of the false return is considered the overt act.

Evasion may be in the form of a false statement or a false document given to an agent of the Service with an intent to mislead. Anyone who does so can be criminally prosecuted for such actions.

Willfulness is not defined in the Internal Revenue Code, but numerous court decisions have defined it.

Willfulness usually is proved through circumstantial evidence. For example, was the act (such as omission of income, etc.) done with:

1) Taxpayer's knowledge;
2) Taxpayer's intent; and
3) Taxpayer's evil purpose.

Enrollment to Practice before the Internal Revenue Service

The Internal Revenue Service gives an annual written examination covering federal taxation and tax accounting. For those who are not attorneys or C.P.A.'s, the successful completion of this examination is proof of your ability to prepare income tax returns. Those who pass this examination are eligible for enrollment to practice before the Internal Revenue Service.

Practice is defined as the handling of all matters connected with presentations to the Internal Revenue Service. A client's rights, privileges, and liabilities are affected in those presentations. Practice includes the preparing and filing of documents and representing a client at various conferences and hearings.

Preparing a tax return, appearing as a witness for a taxpayer, or furnishing information at the request of the Service are not considered practice before the Service. Consequently, a limited tax practice can be pursued without taking the examination and becoming enrolled. The Service feels, however, that the skill shown by passing the examination and the further opportunity of representing taxpayer clients before the Service is well worth the effort required. For the benefit of any preparer taking this course and other interested students, the following items are available from local Internal Revenue Service offices:

Publication 486, *Requirements for Internal Revenue Service Enrollment and Special Enrollment Examination;*

Publication 470, *Limited Practice Without Enrollment;*

Publication 693, *Sample . . . Special Enrollment Examination;*

Form 2587, *Application for Special Enrollment Examination;* (This form is revised annually and is available only in June, July, and August for the examination to be given in September of that year.)

Treasury Department Circular No. 230, *Regulations Governing the Practice of Attorneys, Certified Public Accountants, and Enrolled Agents before the Internal Revenue Service.*

All preparers should continually remind themselves of their responsibilities to both the client and the Service and of the consequences of improper behavior.

The Service continually stresses to its employees, and states in the Rules of Conduct, that Service employees must conscientiously perform their duties to both the public and the Government. The Service feels that each taxpayer should be aware of the tax laws passed by Congress. The goals of the Service include the preparation of returns and the timely payment of taxes based on a thorough knowledge of taxes. The income tax return preparer who is professionally qualified fills an important place in meeting these goals.

Other Information

There are a number of basic points to remember when preparing a tax return. Always ask to see the prior year's return. It should give you some knowledge of the tax effects of the taxpayer's life style. It can help answer the following questions:

Does the taxpayer borrow money?

Does the taxpayer give generously to charities?

Does the taxpayer have large medical expenses, etc.?

Income averaging should be considered in cases where the current year's taxable income shows a dramatic increase over last year's taxable income. Chapter 12 discusses income averaging.

Use a checklist when interviewing the taxpayer. Many taxpayers will bring you a detailed list of all their deductions. When a taxpayer does this, you should still question other items that are missing from the list. The taxpayer is relying on you to prepare an accurate return, so take your time and follow your checklists. There are checklists located throughout Publication 17, *Your Federal Income Tax*, and in tax handbooks published by the major tax services.

Follow up on inconsistencies and leads.

If a taxpayer has more deductions than income, where did the money to pay the expenses come from? If the taxpayer borrowed the money, did you include the interest expense? Is there possible unreported income?

Does the taxpayer's occupation lead you to question whether there could be other deductions? For example:

1) Laborer—expenses for uniforms, safety equipment, union dues;
2) Salesperson—travel expenses, auto costs, publications;
3) Professional—expenses for publications, societies.

Never guess or use your intuition when deciding a tax question. If you are not sure of any point, research it until you are sure. The taxpayer expects you to have the answers. If you do not know, you should not feel embarrassed to say, "I will look it up and let you know."

Recheck your work. You should always make sure that the form is complete and that the arithmetic is correct.

Commonly missed areas include:

1) Not reporting all income;
2) Claiming false deductions;
3) Not properly claiming deductions;
4) Not checking-off for the Presidential Election Campaign Fund.

Research. How do you handle a tax question you are not sure of? The steps we recommend are as follows:

Your basic guides should be Publication 17, *Your Federal Income Tax* and Publication 334, *Tax Guide for Small Business*. If you still cannot find the answer, check with your local Internal Revenue Service office to get any specialized publication that may discuss the topic in depth.

If there are no specialized publications on the topic in which you are interested, or if you still are not sure of the answer, you could:

1) Refer to a tax handbook published by one of the major tax services;
2) Call or visit your local Internal Revenue Taxpayer Information Service;
3) Consult a full tax service in your local library;
4) Go directly to the Internal Revenue Code and the regulations.

In researching various sources, remember that a tax question may be approached in different ways. As an example, if a taxpayer traveled to a doctor located in a different city and had to stay overnight, you could look for your answer under the following headings:

Medical costs (expense);

Living expenses;

Travel expenses.

If you are not sure of the solution to a problem, you should research it in all the sources available to you and in all the topics under which it may be listed.

In addition to Internal Revenue Service literature, many commercial publishers sell tax pamphlets, books, and even looseleaf services which are brought up to date periodically, often weekly. Most libraries subscribe to at least one looseleaf tax service; so if cost is a deterrent, you could use some of the more reasonably-priced paperback publications for primary reference, and use the local library's tax service when more extensive research is necessary.

Where to call for additional information. Each Internal Revenue Service District Office maintains year-round tax information service. Outlying cities in the district that get sufficient inquiries also have such service. Most districts regularly publish a Directory for Tax Practitioners, which lists the telephone numbers in cities where Taxpayer Service Representatives are available to answer tax questions.

All tax practitioners and income tax return preparers are encouraged to request the listing of their names on the tax practitioners mailing list. They will each receive a revised directory and other important information. A packet of forms is mailed to the listed practitioners at the beginning of each year. This will acquaint them with the new forms and permit them to place orders with the District Office for those forms that may be needed. Use Form 3975, *Mailing List Information*, to obtain this packet of forms from the nearest District Office.

Many District Offices are equipped with a toll-free telephone service so that anyone may call from anywhere in the district. Practitioners are encouraged to use this service.

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 7: Income Tax Computations, Tax Preparer Licensing Law, IRS Practitioner Law

Exercises

1. Compute the federal taxable income and tax for the following students who are claimed as dependents on their parent's returns.

   a. Joe Davis has no itemized deductions and the following income:
      Interest: $9,000
      Wages: 1,800

   b. Joy Banker has $1,600 in itemized deductions and the following income:
      Dividends (after $200 exclusion) $1,700
      Wages 900

   c. Marvin Mower has $2,800 in itemized deductions and the following income:
      Interest $9,000
      Wages 200

2. Using the tax tables, determine the federal income tax for the following three taxpayers:

   a. John and Elsie Fisherman file jointly, claim four exemptions and have AGI of $25,702.
   b. Leslie Painter files as head of household, claims five exemptions, has AGI of $19,100.
   c. Janice Doctor, who is married and filing separately, claims one exemption and has AGI of $11,765. Does not have to itemize.

3. Compute the excess itemized deductions for the following taxpayers:

   a. Bill and Judy Bookkeeper file a joint return and have $8,100 in itemized deductions.
   b. Jack Photographer, a qualifying widower, has $2,850 in itemized deductions.
   c. Sara Sander, a married individual filing separately, claims $2,050 in itemized deductions.

Problems in Income Averaging

4. Toby Thomas, single, is a Calendar year taxpayer. His only income for the computation and base period years is his salary. His Line 34 income for these years is:

1981	$29,000
1980	22,000
1979	17,000
1978	9,000
1977	5,000

No adjustments are necessary. How much does Tony save by using the income averaging method?

5. Tom and Carla Vernas give you the following information. They are calendar year taxpayers, have no income other than salary.

YEAR	LINE 34		FILING STATUS
1981	$48,000		Joint
1980	40,000		Joint
1979	31,900		Joint
1978	22,000		Joint
1977	8,000	Tom	Single
	4,000	Carla	Single

If they can save by using the income averaging method how much is the tax saving?

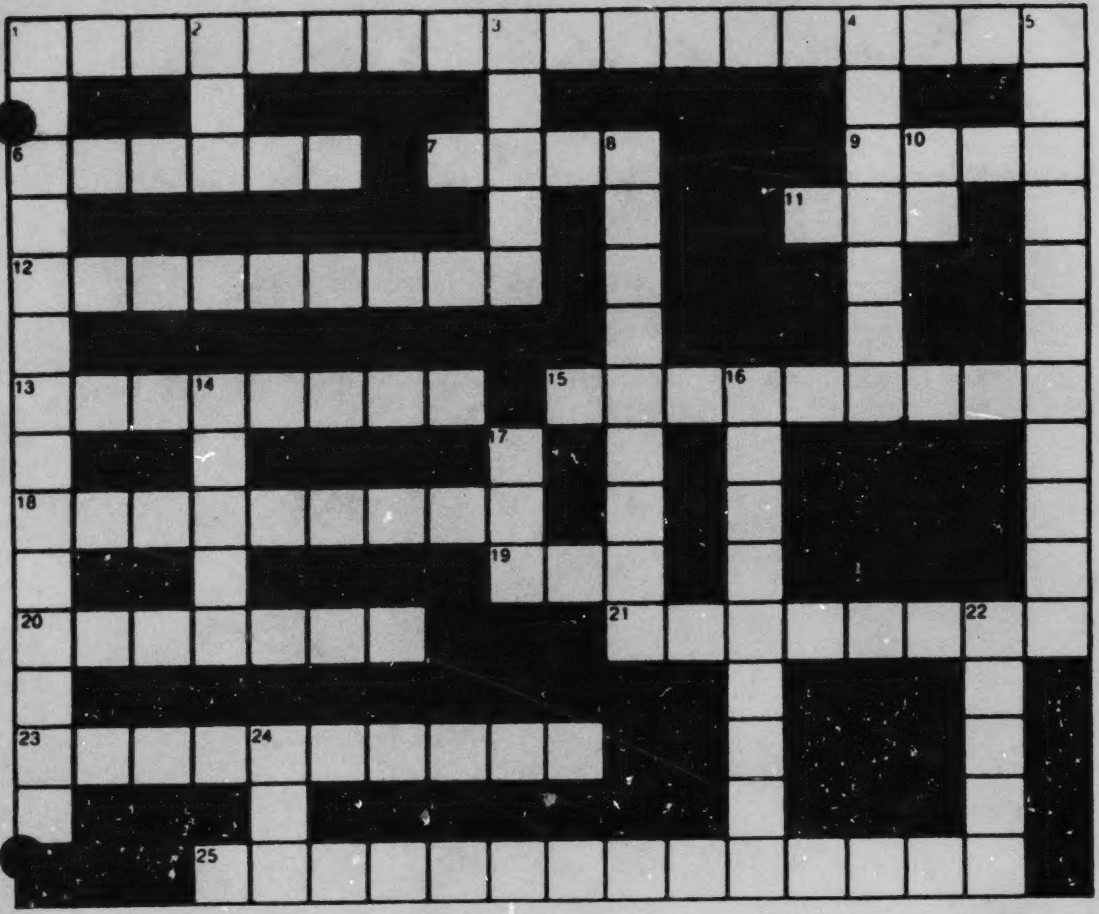
6. Rose Allita, single, age 38 had the following income in the current year.

Wages	$10,500	
Interest	3,400	
Dividends	1,208	(AT & T and IBM stock)
Fully taxable annuities	2,400	

She will claim the allowable ZBA. Her Line 34 income for the four prior years was:

1980	$8,200	
1979	4,100	
1978	(7,500)	loss
1977	1,400	

If Rose will save by income averaging, how much is the tax saving?



Across

1. Congress was given the power to pass direct income tax laws by the to the Constitution.

6.&7. You may to have $1 of your tax liability placed in the Presidential Election Campaign

9. In 1981, the lowest tax was 14%.

11. Internal Revenue Service abbreviated.

12 Employee's Withholding Certificate

13. Income taxes help pay for the we receive from the Federal Government.

15. To qualify as a , five dependency tests must be met.

18. Oliver Wendell Holmes, Jr said, "Taxes are what we pay for society."

19. The amount of tax is what you owe on your tax liability

20. The income of government receives is called

21. A married couple may file a joint or return.

23. After you have filed a return, you will receive a in the mail from the Internal Revenue Service.

[illegible] Tax returns are mailed to Internal Revenue

Down

1. Your number is your taxpayer identification number.

2. A blind single taxpayer who has no dependents may claim exemptions

3 Most tax bills originate in the of Representatives.

4. The lowest tax rates are filing jointly

5 You find your tax liability in

8 Each additional withholding allowance you are allowed to claim the amount of tax withheld from your pay

10 Our federal tax system operates on a pay- -you-go basis

14 Americans did not always have a in what their taxes would be or how they would be spent

15 Each taxpayer is allowed at least one

17 You must the total of wages received from all employers on line 7, Form 1040-A

22 The Internal Revenue Service has the responsibility to collect

25 An additional exemption is allowed a taxpayer who is over 65

SESSION 8

OREGON INCOME TAX
HARRP & PTR

Reading Assignment:

1. State of Oregon, Current Full-Year Resident Publication (Form 40)
2. State of Oregon, Current Part-Year and Nonresident Publication (Form 40NR)
3. OREGON PUBLICATION 17 1/2
4. Information Circulars

A. VOCABULARY

1. Domicile: Is your permanent home, the center of your financial, social and family life. The place you intend to come back to when you are away.
2. Residence: Is your principal place of abode at the current time and may or may not be the same as your domicile.
3. Nonresident: One who does not consider Oregon his domicile. An Oregon resident will be considered a nonresident for tax purposes if 1) he is in the state less than 31 days; 2) doesn't maintain a residence in Oregon the entire year and; 3) maintains a residence outside of Oregon.
4. Part-year resident: One who establishes or terminates Oregon residency during the year.
5. Oregon resident: Even though you live outside Oregon, you are an Oregon resident, if:
   a. You think of Oregon as your permanent home; and
   b. Oregon is the center of your financial, social and family life; and
   c. Oregon is the place you intend to come back to when you are away.

B. INTERVIEW QUESTIONS:

1. Have you been an Oregon resident for the entire year?
2. Did you file an Oregon tax return last year?
3. Did you receive an Oregon refund on last year's tax return or did you pay additional tax?
4. Did you file a tax return to any other state last year? If so, did you receive a refund, or pay additional to that state?

5. If you have a refund on this year's Oregon return, do you wish to contribute any monies to the Oregon non-game wildlife fund or to the Art Development fund? The amount of your contributions will be deducted from your refund and will qualify as a charitable contribution next year.
6. Cover income and deduction items that are unique to Oregon only, ie; American Indian, active duty military pay, etc.
7. Cover items necessary to the filing of Form 70R:
   a. Household income items not otherwise taxable
   b. Ages of taxpayers
   c. Secure copy of property tax statement of homeowners
   d. Secure name of landlord, rents paid, names of roommates, etc. for renters.

PROBLEMS FOR STUDENTS TO WORK
IN CLASS OR AS HOMEWORK

SESSION 8: Oregon Income Tax, HARRP & PTR

Oregon Income Tax Full-Year Resident

1. Define an Oregon resident:

2. What is most commonly deductible on the Oregon state return that is not deductible on the federal return? ______

3. Oregon state standard deduction is based on the (federal) or (Oregon) AGI. The maximum is ______ with a minimum of ______ for everyone except married filing separate.

4. The amount of Oregon income tax allowed as a deduction on the Oregon return is: ______

5. The maximum amount of federal income tax allowed to be deducted on the Oregon return is: ______

6. T F Interest on U.S. obligations (Series E bonds) are taxable on the Oregon return.

7. Taxpayers moving into Oregon may exclude how much of their moving expenses? ______

8. What percentage of the federal credit for the elderly is allowed on the Oregon return? ______

9. How do we deduct political contributions on the Oregon return? ______

10. List ten subtractions on the Oregon return. Show the maximum deductions where they apply.
    a.
    b.
    c.
    d.
    e.
    f.
    g.
    h.
    i.
    j.

11. Which of the itemized deductions on the federal Schedule A are not deductible on the Oregon return?
    ______

12. What is the minimum standard deduction for married filing separate? ______ What is the maximum standard deduction for married filing separate? ______

13. Can you itemize on the Oregon return even if you are unable to do so on your federal return? ____________

14. Are the political contribution rules and regulations the same on Oregon as they are on federal? ____________

15. If both spouses are full-year residents of Oregon, do they have to use the same filing status on Oregon that they use on federal? ____________

16. Which of the following are taxable on an Oregon return:

____a. Renters refund, taxpayer itemized on prior year's return.
____b. Property refund, taxpayer itemized on prior year's return.
____c. Military income of $2,800 (active duty).
____d. Union pension of $3,200.
____e. Social Security.
____f. Civil service pension of $2,400, taxpayer age 51 with $8,000 earned income.
____g. Municipal bonds from the State of Washington.
____h. Series E bond interest.

17. Which of the federal forms have to be attached to the Oregon Form 40? ________ To the Oregon Form 40S? ________.

18. How is a civil service pension treated on an Oregon return? ____________.

19. How is a Public Employees Retirement System pension (PERS) treated on an Oregon return? ____________.

20. How are active duty military wages treated on an Oregon return? ____________.

21. How is a National Guard W-2 handled when you get to the Oregon return? ____________.

22. List four additions to the Oregon return:

a. ____________.
b. ____________.
c. ____________.
d. ____________.

23. what percentage of the federal child and dependent care credit do you use as a credit on the Oregon return? ____________.

24. How much credit does someone who lost the use of two limbs get on the Oregon return? ______________

25. The severely disabled benefit is an ______________.

26. What are construction workers' commuting costs? ____.

27. What are the basic qualifications for filing a renter's refund? ______________________________.

28. What are the basic qualifications for filing for a HARRP property tax refund? ______________________.

29. How do roommates handle the renters refund? ____

30. Do licensed travel trailers qualify as a home you own for the property tax refund? ____ Explain: ____.

31. If your home is on three tax lots do you send in all three property tax statements? ______________.

32. Total household income includes: (Definition) ____.

33. Business losses are limited to what amount for filing Form 70R? ______________________________.

34. List six types of income that do not go on the property tax renters refund as household income:

a.
b.
c.
d.
e.
f.

35. How does the special shelter allowance you receive from ADC affect your 70R refund? ______________.

36. What determines your maximum refund on Form 70R? ____.

37. What percentage of your rent qualifies as your rent refund? ______________.

38. If there are Oregon changes to income, does this affect your itemized deductions? ________ If so, how? If not, why not? ______________________________.

39. If there are Oregon changes to income, does it affect your Form 70R? ____________.

Oregon Income Tax Part-Year and Nonresident

1. Explain the circumstances that would allow a married couple to be able to file married filing separately on their Oregon return even though they filed married filing joint on their federal return.

2. What income is included as Oregon income to the nonresident?

3. Define an Oregon part-year resident:

4. Military personnel who enter the Armed Forces from Oregon, who meet certain requirements may be considered a nonresident. What are these requirements?

5. What income is included as Oregon income to the part-year resident?

6. How does an Oregon part-year and nonresident who itemizes deductions on the federal return determine his Oregon itemized deductions?

Situation 1:

Tom R., and Mary S. Brown live at 45 East Skyline Drive, Pleasant Valley, OR, 97654, Blue County. Phone #882-7630.

Tom, age 68, SS# 509-22-4487, is retired. Mary, age 66, is a housewife. Her SS# is 498-58-2820. She received $2,100 from social security during the year. This amount includes the medicare premium of $123.60.

Tom receives two fully-taxable pensions:
Civil Service pension of $1,800.
Oregon State Employees Retirement pension of $3,300.

The Browns went on a little vacation in August to Reno, Nevada. Mr. Brown had some good luck and won $5,000. Mr. Brown has a W-2G from the Lucky Slipper Casino which shows $5,000 winnings and federal W/H of $500. The Browns have recorded gambling losses of $300.

They received the following interest and dividends:

A T & T	$2,400
Plaza Bank and Trust	695
First National Bank	310
Series E Bond interest	200

They give you a list of itemized deductions: **Medical:** Hospitalization insurance, $346; medicare premiums, $123.60; medicine & drugs, $136; Dr. Mason, D.D.S., $70; medical mileage $23.60 (720 miles).

Taxes: Real estate tax $386 (Valuation of the home $25,000; Oregon income tax balance due on previous year return paid during the year $287.

Interest: Home mortgage $886

Contributions: First Christian Church $226; Heart Association $15; Oregon Lung Association $40; Crippled Children $25.

Miscellaneous: Tax Preparation fee $35. Political Contribution $50 to a candidate who filed his candidacy July 1. Receipt available.

They would both like to check off $1 to the Presidential Campaign Fund. Credit for the elderly from Fed. Schedule R is $150.

Prepare their federal and Oregon and 70R returns. They do not have any foreign bank accounts or trusts.

Situation 2:

Prepare Forms 40NR for the following three taxpayers. Federal returns need not be prepared. Total information is not given: complete the forms with only the information allowed:

A. John A. Walters moved to Oregon February 20, with his wife, Judy and their two children. He intends to make Oregon his new residence.
  a. His total income, line 31, Form 1040 is $12,500
  b. His Oregon W-2 income is $8,500
  c. His California W-2 income is $2,500
  d. He also had net income of $2,000 from a joint venture in California, an orange grove. The crop was harvested in May and he received payment then.
  e. He incurred $500 expense in moving his family and belongings to Oregon.
  f. His itemized federal 1040 Schedule A shows a total of $5,400 of itemized deductions on line 39, including $350 Oregon income tax withheld and $30 California income tax withheld.
  g. His federal tax liability from line 47, 1040, is $450.
  h. His total federal withholding is $620.

B. Mr. and Mrs. Doe reside in California. He is employed by the railroad as a trainmaster. Mrs. Doe does not work outside of the home. Mr. Doe's W-2 for this year shows earned income of $16,290 and the federal income tax withholding of $2,473.

During the year the Oregon farm they own was rented for $450 per month for the entire year. Mr. Doe's deductible farm expenses were: depreciation of $641.80 and additional expenses of $223. Oregon depreciation was $540 rather than $641.80.

His personal deductions itemized on Schedule A., line 39, were $4,313. This amount included $280 California income tax, and no Oregon income tax.

The renters deposited their rent directly to Mr. Doe's savings account, which he maintained for this purpose, in a bank located in Oregon. During the year this account accumulated $465 interest. Their federal income tax liability was $1,861 (line 47, 1040). The Does have 4 dependent children. Are the Does required to file a 1982 Estimate to Oregon?

C. William B. Carlson and wife Betty J. lived in Oregon until July 4th, when they decided to retire and permanently move to Arizona.

a. His W-2 income for Oregon showed $4,500 and Oregon income tax withheld of $210.
b. After reaching Arizona, they did take some full-time custodial work, so line 7, form 1040 shows $6,000 ($1,500 Arizona wages).
c. William had interest income from General Motors' bonds of: $280 paid March 31, $310 paid June 30, $240 paid September 30 and $260 paid December 31.
d. The Carlsons, because they couldn't sell their Oregon residence, decided to rent it. They received net rental income of $300 for the last half of the year.
e. The Carlsons spent $800 moving their personal belongings to Arizona.
f. The Carlsons had a $200 refund from Oregon on the prior year's income tax return. They itemized on the previous return filed. Excess itemized deductions were $700. Oregon Tax claimed $500.
g. Mr. Carlson's fully-taxable pension began in August. He received $3,000 in 1981.
h. They decided to take the standard deduction this year.
i. Federal tax liability from line 47, Form 1040 is $193.
j. Arizona tax paid in 1981 $130.

Situation 3:

Complete an Oregon Form 40 for Joe and Clara Tyler from Session 5.

Additional information: Telephone #555-6435. Lane County. They do not wish to donate any part of refund to either fund.

Situation 4:

Complete an Oregon Form 40 for Ima Taxpayer from Session 6.

Additional information: Telephone #653-0728. Donate $1 from refund to the Oregon Nongame Wildlife Fund and $5 to the Oregon Arts Development Fund. Note that the 3% medical % would be different for Oregon.

SESSION 9

MID-TERM EXAMINATION

READING ASSIGNMENT - REVIEW OF FIRST 8 SESSIONS

Prepare a tax return for Mr. Ferguson (information follows) and turn it into the instructor, if the instructor so requests, prior to the mid-term exam.

Kenneth M. Ferguson lives at 111 West 18th Street, Fairview, OR, 98765, Atkins County. Kenneth's social security number is 500-38-7043. He is 36 years old and has not remarried since his divorce from Gloria, April 21,1976. He has no dependents. His telephone is 125-4567.

Mr. Ferguson is a general manager for Tower Printing Co. He moved from Faraway, WA, where he worked for Lower Printing Company. His W-2's show the following:

	Wages	Fed W/H	FICA	State W/H
Tower Printing Co. **Fairview** , OR	$9,200	$1,771	$611.80	$430
Lower Printing Co. **Faraway** , WA	7,150	1,376	475.48	

Other income consists of: Dividends: Comstock Corporation $826 of which $516 is capital gain distributioons (received in two installments of $258 on January 31 and July 31); NCV Company $112; Blackman Industries $206 of which $82 is nontaxable (Recieved equally in March and September).

Interest: Fairview National Bank and Trust $76; Commerce Bank, Faraway, WA $199.

Mr. Ferguson withdrew the money from the Commerce Bank and brought it to Oregon when he moved July 2.

Mr. Ferguson was offered the job in Oregon June 15. After his position as General Manager was confirmed on June 20, he made a trip to Fairview to look for an aprtment. The distance from Faraway to Fairview is 420 miles. (The distance from his apartment in Faraway to his job in Washington was 10 miles). On this trip he stayed 2 nights in a motel at $16 a night. Meals were about $10 a day for 3 days. On this trip he was successful in renting an apartment. He paid the first and last month's rent total of $500 and $100 cleaning deposit on the apartment.

When he moved, he rented a U-haul trailer for $200. He left Faraway Friday afternoon, drove about 200 miles and stopped at a motel for the night. He drove to Fairview the next morning. Motel cost $14 and meals cost $10.

Ken desires to check off $1 for the Presidential Campaign Fund. Prepare the federal and Oregon part-year returns. Mr. Ferguson has no foreign bank accounts or trusts. His rent in Oregon was $250 per month for July through December. He paid Joe Blow his landlord.

SESSION 10

BASIS OF ASSETS, DEPRECIATION

Reading Assignment: Publication 17, Chapters 18,26
Publication 334, Chapters 6,13
Publication 225, Chapters 6,12

A. VOCABULARY

A.C.R.S. (Accelerated Cost Recovery System)
Accelerated depreciation
Additional first-year depreciation
Adjusted basis
Amortization
Basis
Bonus depreciation
Boot
Capital expenditure
Capitalize
Conversion
Declining balance depreciation
Depletion
Depreciation
Fair market value
Intangible vs tangible property
Personal property
Personal-use property
Salvage value
Straight-line depreciation
Sum-of-the-years-digits depreciation
Useful life

B. INTERVIEW QUESTIONS:

1. Did you dispose of any property this year, either sold, traded or abandoned, if so what date and what price did you receive for the property?

2. Did you receive a gift of income-producing property?

3. Did you inherit property that is used in a trade or business or held for the production of income?

4. Did you convert any personal use property to rental or business property?

5. Did you buy any property this year. If so what was the total amount paid including any financed amount and what date was it purchased?

Example of No. gain or loss

Basis when fair market value is more than donor's adjusted basis. When the fair market value of the property you receive as a gift is more than the donor's adjusted basis in it, your basis in that property is the donor's adjusted basis. If the donor pays a gift tax on the property.

Basis when donor's adjusted basis is more than fair market value. When the donor's adjusted basis in the property you receive as a gift is more than its fair market value, your basis for figuring depreciation, etc., or a gain is the donor's adjusted basis. Your basis for figuring a loss is the fair market value of the property at the time of gift. If you sell the property for an amount that is between its adjusted basis and fair market value at the time of gift, you will have neither a gain nor a loss.

Example. Billy Brown receives a gift of income-producing property having an adjusted basis of $10,000 at the time of the gift. The fair market value at the time of the gift is $9,000. If he later sells the property for less than $9,000, he will have a loss. If Billy sells the property for $9,500, there will be neither gain nor loss. There is no gain because his basis for determining gain is $10,000; there is no loss because his basis for determining loss is $9,000.

Computation of gain or loss is summarized below.

Selling price greater than donor's adjusted basis –	selling price – donor's adjusted basis GAIN
Selling price less than fair market value –	fair market value – selling price LOSS
Selling price not less than fair market value at the time of the gift nor more than donor's adjusted basis	NO GAIN OR LOSS

BASIS REFERENCE CHART

TYPE OF PROPERTY	BASIS FOR DETERMINING GAIN, LOSS, DEPRECIATION	
Gift before 1921	GAIN or LOSS:	Fair market value at time of gift
Gift after 1920	GAIN or DEPR:	Same as in hands of donor, increased (but not above FMV at time of gift) by the amount of gift tax paid
	LOSS:	Same as for gain or FMV, whichever is lower
Property acquired from decedent (inherited) – date of death before	GAIN or LOSS:	FMV at date of death (or up to six months after, if executor chooses optional method)
Property acquired in divorce or separation settlement – transferring spouse taxed on transfer		FMV at date of transfer or other value taxed to spouse
Property acquired in divorce or separation settlement – no taxable exchange		Basis is same as before transfer
Property converted from personal to business use	GAIN:	Adjusted basis (cost + improvements – depreciation)
	LOSS or DEPR:	Lesser of adjusted basis, or FMV at date of conversion
Nontaxable exchanges	GAIN or LOSS:	Basis of property acquired is same as basis of property given up, plus any recognized gain and less any cash or unlike property received
New residence replacing old when no gain or only part of gain is recognized	GAIN:	Cost less gain not recognized on sale of old residence
	LOSS:	Same as for gain, but loss not recognized

REINVESTMENT TIME LIMITS

Personal Residence –24 months before or after date of sale.

Involuntary Conversion – 2 years from close of taxable year in which involuntary conversion occurs. (Involuntary conversion of personal residence may follow either of above time limits; however, election must be made in the year of conversion.)

Condemnation – Real property ONLY – 3 years from close of taxable year in which condemnation occurs.

DEPRECIATION CHART - OREGON FEDERAL - PRIOR TO 1981

TYPE OF DEPRECIATION	APPLICABLE TO TYPE OF PROPERTY	APPLIES ON NEW OR USED	SALVAGE VALUE REDUCTION	CHANGE TO DIFFERENT METHOD	MINIMUM LIFE ALLOWED	LIMITATION TO A YEAR'S DEDUCTION	LIMITATION ON HOW PURCHASED
ADDITIONAL 20% FIRST YEAR DEPRECIATION	Tangible Personal ONLY (Not Buildings or Citrus Orchards)	New or Used	None	One Time Only – Must be taken on a timely filed return	6 Years or more	$2,000 per Taxpayer (20% of $10,000) $4,000 Joint (20% of $20,000)	Purchased from "outsider" Do not count trade-in portion
STRAIGHT LINE	ALL KINDS	New or Used	Yes (6) 10% Rule	With I. R. S. Approval	No Minimum 10% Rule-3 years	None	Acquired by Purchase, Trade, Gift, Inheritance
SUM OF THE YEARS DIGITS	Tangible Personal and Residential Rental Housing	New ONLY	Yes (6) 10% Rule	Approval Req'd except when changing to S/L	3 Years or more	None	By Purchase
DOUBLE DECLINING BALANCE 200%	Tangible Personal and (1) Residential Rental Housing	New ONLY	None	Approval Req'd except when changing to S/L	3 years or more	None	By Purchase
LIMITED DECLINING BALANCE-150%	TANGIBLE PERSONAL	New or Used	None	Approval Req'd except when changing to S/L	3 years or more	None	No Limitation
	(2) ALL REAL PROPERTY	New ONLY					By Purchase
LIMITED DECLINING BALANCE - 125%	(3) Residential Rental Housing	Used ONLY	None	Approval Req'd except when changing to S/L	20 years or more	None	No Limitation
STRAIGHT LINE 60 - MONTH LIFE	(4) Low Income Rental Housing Rehabilitation Expenses	(5) Expenditures incurred after 12-31-75 and Before 1/1/79	None	Special Deduction	5 years or more	20% of Qualifying Expenses	By Purchase

(1) Double Declining Balance at 200% is allowable only on New Residential Rental Housing, which qualifies if 80% of gross rental income for the entire year is from dwelling units. This 80% rule is applied on a year-to-year basis.

(2) 150% Declining Balance is the maximum allowable on all other new real property that does not qualify under (1).

(3) 125% Declining Balance is the maximum allowable on used Residential Rental Housing acquired after 7-24-69 with a useful life of 20 years or more. If life is less than 20 years, (and for all other used real property) straight line must be used.

(4) Dwelling units occupied by individuals of low or moderate income qualify. The expense allowable is the cost per dwelling unit in excess of $3,000 for any two consecutive years, including tax year... Maximum $20,000 per unit.

(5) If under a binding contract entered into before 1/1/79 expenses are deemed incurred before 1/1/79.

(6) 10% Rule Salvage value may be reduced by a maximum of 10% of the cost or basis. If less than 10%, disregard. This rule is optional.

A.C.R.S. (Accelerated cost recovery system) - Federal law after 1980.

Under ACRS, the cost of depreciable property is recoverable over a 3-year, 5-year, 10-year period. A taxpayer may elect extended recovery periods. Standard recovery periods, property included in the prior periods and extended recovery periods are shown below.

Accelerated Cost Recovery Periods

Cost Recovery Period	Included Property	Optional Rcvry Period
3	Autos, light duty trucks, machinery and equipment used for research and experimentation and certain other property	5 or 12
5	Heavy duty trucks, office furniture, ships, aircraft, lathes, and most other machinery and equipment and single purpose agricultural and horticultural structures	12 or 25
10	Certain public utility property, railroad tank cars, and a few other properties	25 or 35
15	Most real property and some public utility property	35 or 45

ACRS will be to the taxpayer's benefit. The recovery periods are, in general, shorter [illegible]n under old law. At the same time, disputes over estimated life should be eliminated. Further, salvage value can be ignored.

Under ACRS a taxpayer simply multiplies the unadjusted basis of property times a statutory percentage. The statutory percentages, which can be found in the table, depend on the property's class and the number of years since the property was placed in service by the taxpayer. No deduction is allowed on personal property in the year of its disposition. The depreciation deduction on real property will depend on the number of months the property was held during the year of disposition. For property placed in service during 1981 through 1984, the accelerated cost recovery system tables are based on the 150% declining-balance method in early years and switched to the straight-line method for the remainder of the recovery period. The method also assumes the use of a "half-year convention" for the year of acquisition. The convention is built into the table.

Taxpayers may elect the straight-line method of recovery costs. There are no tables. [illegible]r personal property, the half-year convention applies and has the effect of extending the recovery period by one year.

Example: Miss Taxpayer acquires 5-year property in 1981 for $10,000. Her deduction is as follows:

	PERCENT	DEDUCTION
1981	10%	$ 1,000
1982	20%	2,000
1983	20%	2,000
1984	20%	2,000
1985	20%	2,000
1986	10%	1,000
	100%	$10,000

If a taxpayer elects the straight-line method of recovery, he must also elect it for all property of that class placed in service during the year the election is made. Once made, the election can be revoked only with IRS consent. As is the case for property depreciated under the accelerated method, no deduction is allowed in the year the property is disposed of.

SUMMARY OF RULES UNDER ACRS

Recovery Period	Depreciable property is divided into two categories and recovery periods of 3-years, 5-years, 10-years and 15-years established for categories. Elections permit extended recovery periods.
Salvage Value	Salvage value is ignored in ACRS depreciation.
Component depreciation	Component depreciation is not available under ACRS.
Depreciation method	Depreciation deduction is based on tables. From 1981-1984 the tables will be based on 150% declining balance, with a conversion to straight-line. For property acquired in 1985 the tables will be based on 175% declining balance with a conversion to straight-line. Beginning in 1986, the tables will be based on 200% declining-balance with a conversion to straight-line.
Half-year convention	For personal property, the tables assume a half-year's depreciation is taken during the year property is placed in service. For real property, the depreciation during first year will be based on the number of months the property was in service.
Final year elections	No depreciation is allowed in the year of disposition of personal property. Depreciation of buildings will be based on the number of months the property is held. Taxpayers may elect to use straight-line depreciation rather than the tables. In addition, taxpayers may elect extended recovery periods rather than the usual 3, 5, 10, or 15 years.
Example:	In 1981, Tom Jones buys $17,000 of machinery, $3,000 of office furniture and an $8,000 used light duty truck. The machinery and office furniture are 5-year properties and the used light duty truck is a 3-year property. His deduction would be as follows:

	Truck		Machinery and Furnitu	
	Rate	Deduction	Rate	Deduction
1981	25%	$ 2,000	15%	$ 3,000
1982	38%	3,040	22%	4,400
1983	37%	2,960	21%	4,200
1984			21%	4,200
1985			21%	4,200
		$ 8,000		$20,000

All Jones had to do was to multiply the cost of the machinery, furniture, and truck (unreduced by salvage value) by each year's appropriate percentage in the 3-year and 5-year recovery tables.

Form 4562 follows:

Form **4562**
(Rev. September 1981)
Department of the Treasury
Internal Revenue Service

Depreciation

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172
Expires 12/31/82

Name(s) as shown on return: Tom Jones

Identifying number

▶ Generally, you must use the Accelerated Cost Recovery System of depreciation (ACRS) for all assets you placed in service after December 31, 1980. Report these assets in Part I, lines 1(a) through 1(f).

▶ You may elect to exclude certain property. Report this property in Part I, line 2.

▶ Use Part II for assets you placed in service before January 1, 1981, and certain other assets for which you cannot use ACRS.

▶ Filers of Schedule C (Form 1040), Schedule E (Form 1040) and Form 4835 should see the instructions for those forms before completing Form 4562.

Part I Assets placed in service after December 31, 1980

A. Class of property	B. Date* placed in service	C. Cost or other basis	D. Recovery period	E. Method of figuring depreciation	F. Percentage	G. Deduction for this year
1 Accelerated Cost Recovery System (ACRS) (See instructions for grouping assets):						
(a) 3-year property	1981	8000	3	ACRS	25	1667
(b) 5-year property	1981	20,000	5	ACRS	15	3000

[illegible]
Internal Revenue Service

Instructions for Form 4562 Depreciation

(Revised September 1981)

Section references are to the Internal Revenue Code

Highlights

The Economic Recovery Tax Act of 1981 created a new method of depreciation, the Accelerated Cost Recovery System. You must use this new system to figure depreciation for most assets you place in service after December 31, 1980. The tax act also repealed the election for additional first-year depreciation for assets placed in service after December 31, 1980.

Use this revision of Form 4562 for tax years ending after December 31, 1980, including years that began before January 1, 1981.

If you have already filed your return for a tax year ending in 1981, you must file an amended return if you (a) did not use the Accelerated Cost Recovery System for assets that are recovery property under section 168, OR (b) you elected additional first-year depreciation for assets placed in service after December 31, 1980.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue Laws of the United States. The information is used to ensure that you are complying with these laws and so that we can figure and collect the right amount of tax. You are required to give us this information.

Purpose.—Use Form 4562 to explain the deduction for depreciation on your tax return. If you have qualifying property you use in business or hold for the production of income, you are allowed to deduct a part of the cost of the property each year. This deduction is called depreciation.

Depreciation begins when you place the property in service. It ends when you take the property out of service, or when you have recovered all of your cost. See Publication 534, Depreciation, for more information.

Specific Instructions

Part I

Assets placed in service after December 31, 1980

Line 1—Accelerated Cost Recovery System (ACRS)

Generally, you must use ACRS for all assets you place in service after December 31, 1980. The assets to which ACRS applies are called "recovery property." See Publication 534 for more information and special rules for (among other items):

- components of real property
- leasehold improvements
- property used outside the U.S.
- leasing transactions
- replacement track material
- short tax years

You cannot use ACRS for:

- property placed in service before January 1, 1981
- certain public utility property
- certain property acquired from related persons
- property acquired in certain nonrecognition transactions

See the instructions for Part II for how to report property for which you cannot use ACRS.

If you elect to amortize property, that part of the cost or other basis that is amortized does not qualify for ACRS. Report this amortization separately as required by regulations and the instructions for the return you file.

Certain property may be excluded from ACRS under the election in section 168 (e)(2). See instructions for Part I, line 2 for how to report this property.

Under section 168(b)(3) you may elect to use alternate percentages for one or more classes of property that are different from the prescribed percentages in the line-by-line instructions below.

The alternate percentages are based on the straight line method over the following recovery periods:

3-year property	3, 5, or 12 years
5-year property	5, 12, or 25 years
10-year property	10, 25, or 35 years
15-year real property	15, 35, or 45 years
15-year public utility property	15, 35, or 45 years

The following rules apply:

Recovery property other than 15-year real property.—You must use the same alternate percentage for all property in the same class placed in service in the same year. The percentage elected will apply for the entire recovery period you elect for the property, and the half-year convention applies. The half-year convention means that property is treated as if it were placed in service (or retired) on the first day of the second half of the tax year. See example 2 on page 2.

15-year real property.—You may elect the alternate percentages on a property-by-property basis, and the half-year convention does not apply.

Column A. Class of property.—Enter property on the proper line for each class as described in the instructions for lines 1(a) through 1(f). The class in which property is placed depends on whether the property has been assigned a "midpoint class life" under the Asset Depreciation Range System as of January 1, 1981. These midpoint class lives are in Publication 534.

Except for 15-year real property, you may group recovery property within each category by the year you placed it in service. You may group 15-year real property by month and year placed in service.

Column B. Date placed in service.—For lines 1(a), 1(b), 1(c) and 1(d), enter the year you placed the property in service. For lines 1(e) and 1(f), enter the month and year you placed the property in service.

Column C. Cost or other basis.—For recovery property enter the unadjusted basis of all assets placed in service in the same year. Unadjusted basis is the basis used for determining gain less that part of the basis you elected to amortize. Salvage value is not taken into account in figuring your ACRS deduction. See Publication 551, Basis of Assets, for information on cost or other basis.

Column D. Recovery period.—Enter the recovery period that applies for each entry in column C.

Column E. Method of figuring depreciation.—If you elect to use an alternate percentage based on the straight-line method over a recovery period specified in section 168(b)(3) (see instructions above), enter "S.L." Otherwise, leave blank.

Column F. Percentage.—Enter the prescribed percentage that applies from the instructions for lines 1(a) through 1(f), or the alternate percentages as figured under the election in 168(b)(3) discussed above. Also, Publication 534 has special tables for property used outside the U.S., and replacement track material of a railroad.

Column G. Deduction for this year.—Multiply the amount in column C by the percentage in column F for each item. Enter the result in column G.

Line 1(a)—3-year property

This is section 1245 property that:

- has a midpoint class life of 4 years or less, OR
- is used for research and experimentation, OR
- is a race horse more than 2 years old when you place it in service, or any other horse that is more than 12 years old when you place it in service.

The prescribed percentages for assets in this class placed in service after December 31, 1980 and before January 1, 1985, are:

1st year	25%
2nd year	38%
3rd year	37%

See example 1 on page 2.

Line 1(b)—5-year property

This is section 1245 property that is not 3-year property described above, or 10-year property or 15-year public utility property described below.

The prescribed percentages for assets in this class placed in service after December 31, 1980 and before January 1, 1985, are:

1st year	15%
2nd year	22%
3rd through 5th year	21%

Line 1(c)—10-year property

This is public utility property (that is not 3-year property or section 1250 property) with a midpoint class life of more than 18 and not more than 25 years, and section 1250 property with a midpoint class life of 12.5 years or less. This class also includes manufactured homes, railroad tank cars, and certain coal utilization property of public utilities.

The prescribed percentages for assets in this class placed in service after December 31, 1980 and before January 1, 1985, are:

1st year	8%
2nd year	14%
3rd year	12%
4th through 6th year	10%
7th through 10th year	9%

Line 1(d)—15-year public utility property

This is public utility property that has a midpoint class life of more than 25 years, and is not 3-year property or 15-year real property.

The prescribed percentages for assets in this class placed in service after December 31, 1980 and before January 1, 1985, are:

1st year	5%
2nd year	10%
3rd year	9%
4th year	8%
5th and 6th year	7%
7th through 15th year	6%

Lines 1(e) and 1(f)—15-year real property

This is section 1250 property that does not have a midpoint class life of 12.5 years or less. You must use different percentages to figure your ACRS deduction for low-income housing from those for all other 15-year real property.

Group each kind of property by month and year placed in service. Enter each group on a separate line. The percentage you use each year depends on the month you placed the property in service. See example 3, below.

The prescribed percentages for assets in this class for the first four years are:

Line 1(e). 15-year real property low-income housing.—

Year	Use the column for the month placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	13%	12%	11%	10%	9%	8%	7%	6%	4%	3%	2%	1%
2d	12%	12%	12%	12%	12%	12%	12%	13%	13%	13%	13%	13%
3d	10%	10%	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%
4th	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%	10%

Line 1(f). 15-year real property other than low-income housing.—

Year	Use the column for the month placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	12%	11%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%
2d	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%	11%	12%
3d	9%	9%	9%	9%	10%	10%	10%	10%	10%	10%	10%	10%
4th	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%	9%	9%

Note: Complete tables for 15-year real property are in Publication 534.

Examples:

1. In 1981 you place in service qualifying 3-year property with an unadjusted basis of $10,000. You do not elect to use the alternate percentages. Complete line 1(a) for 1981 as follows:

Column B.—Enter 1981

Column C.—Enter $10,000

Column D.—Enter 3 years

Column E.—Leave blank

Column F.—Enter 25%

Column G.—Enter $2,500 ($10,000 unadjusted basis times 1st year percentage of 25%)

For 1982 your entry in column F will be 38%, and in column G, $3,800.

2. If you elected the alternate percentages described in section 168(b)(3), your entries for 1981 and 1984 would be:

Column B.—1981

Column C.—$10,000

Column D.—3 years

Column E.—S.L.

Column F.—16.7% (½ of 33.3%)

Column G.—$1,670

For 1982 and 1983, the entries in column F would be 33.3%, and in column G, $3,330.

3. In September 1981 you, a calendar year taxpayer, place in service qualifying 15-year real property that is low-income housing. The property has an unadjusted basis of $500,000. You do not elect to use the alternate percentages. Complete line 1(e) as follows:

Column B.—Enter 9/81

Column C.—Enter $500,000

Column D.—Enter 15 years

Column E.—Leave blank

Column F.—Enter 4% (from column 9 of the table for line 1(e))

Column G.—Enter $20,000

For 1982 your entry in column F would be 13% (from column 9 for the 2d year) and in column G, $65,000.

Line 2—Property subject to section 168(e)(2) election

Certain property may be excluded from ACRS if you elect to depreciate it using the units-of-production method, or any other method of depreciation not based on a term of years except the retirement-replacement-betterment method. See section 168(e)(2).

If you make this election, report the property on line 2 as follows:

Column A. Class of property.—Describe the property and method of depreciation you use to elect to exclude the property from ACRS under section 168(e)(2).

Column B. Date placed in service.—Enter the actual date you placed the property in service.

Column C. Cost or other basis.—This is the depreciable basis (cost or other basis reduced by salvage value, if it applies). See Publication 551 for more information.

Column D. Recovery period.—Leave blank.

Column E. Method of figuring depreciation.—Leave blank.

Column F. Percentage.—Enter the life, rate, or percentage you used to figure the deduction for each item in column A.

Line 5—Total deduction

Add column G, lines 3 and 4. Enter on the proper line for depreciation expense (if any) on your return. Attach Form 4562 to your return.

Part II

Assets placed in service before January 1, 1981, and other assets not qualifying for ACRS

Use Part II to report depreciation for property you cannot report in Part I.

If you file Schedules C or E (Form 1040) or Form 4835 and have only property placed in service before January 1, 1981, you may not need Form 4562. See the instructions for the depreciation schedule of the form you file.

Note: *If you are using this form for a year that began before January 1, 1981, and you have elected additional first-year depreciation for assets placed in service before that date, attach a separate schedule. This schedule should describe the assets affected, give the date you placed them in service, and show the cost or other basis before deducting any depreciation. Enter the total additional first-year depreciation (limited to $2,000, or $4,000 on a joint return) under "Other" on line 2, Part II. Identify the amount as "Additional first-year depreciation from attached schedule."*

Line 1—Class Life Asset Depreciation Range (CLADR) System Depreciation

The Economic Recovery Tax Act of 1981 repealed the provision for electing the CLADR system for recovery property placed in service after December 31, 1980.

If you previously elected the CLADR system, you must continue to use that system of depreciation for the assets remaining in your vintage accounts. Use the asset depreciation period and the conventions specified in your election for the year you placed the property in service. You must also continue to meet all record-keeping requirements. However, you are no longer required to file Form 4832, Class Life Asset Depreciation Range (CLADR) System. That form is obsolete.

If you elect CLADR for assets that do not qualify for ACRS (see section 168(e)(1) and (4)), attach a statement that clearly specifies the items listed in regulations section 1.167(a)–11(f)(2) that still apply.

Line 2—Other depreciation

You may enter each asset separately, or you may group assets into depreciation accounts. You must figure the depreciation separately for each asset or group of assets. See Publication 534 for more information on grouping assets.

Column A. Description of property.—Enter a brief description of the asset or group. You may use the pre-printed heading if you have an asset or group of assets that the heading describes.

Column B. Date acquired.—Enter the date placed in service for a single asset, or for a group of assets that you placed in service on the same date. Otherwise leave this column blank.

Column C. Cost or other basis.—See instructions for Part I, line 2, column C.

Column D. Depreciation allowed or allowable in earlier years.—Enter the total depreciation allowed or allowable for the assets in each group for all earlier years.

Column E. Method of depreciation.—Enter the method of depreciation you used to figure the deduction for each asset or group.

Column F. Life or rate.—Enter the life or rate of depreciation you used to figure the depreciation for each asset or group.

Form **4562**
(Rev. September 1981)
Department of the Treasury
Internal Revenue Service

Depreciation

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172
Expires 12/31/82

Name(s) as shown on return | Identifying number

▶ Generally, you must use the Accelerated Cost Recovery System of depreciation (ACRS) for all assets you placed in service after December 31, 1980. Report these assets in Part I, lines 1(a) through 1(f).

▶ You may elect to exclude certain property. Report this property in Part I, line 2.

▶ Use Part II for assets you placed in service before January 1, 1981, and certain other assets for which you cannot use ACRS.

▶ Filers of Schedule C (Form 1040), Schedule E (Form 1040) and Form 4835 should see the instructions for those forms before completing Form 4562.

Part I Assets placed in service after December 31, 1980

A. Class of property	B. Date placed in service	C. Cost or other basis	D. Recovery period	E. Method of figuring depreciation	F. Percentage	G. Deduction for this year
1 Accelerated Cost Recovery System (ACRS) (See instructions for grouping assets):				▨	▨	▨
(a) 3-year property						
(b) 5-year property						
(c) 10-year property						
(d) 15-year public utility property						
(e) 15-year real property—low-income housing						
(f) 15-year real property other than low-income housing						
2 Property subject to section 168(e)(2) election (see instructions):			▨	▨		
3 Totals (add amounts in columns C and G)			▨	▨	▨	
4 Depreciation from Part II, line 3						
5 Total (add column G, lines 3 and 4). Enter this amount on the depreciation expense line (where it applies) of your return						

See Paperwork Reduction Act Notice on page 1 of the separate instructions.

Form **4562** (Rev. 9-81)

Part II Assets placed in service before January 1, 1981 and other assets not qualifying for ACRS

A. Description of property	B. Date acquired	C. Cost or other basis	D. Depreciation allowed or allowable in earlier years	E. Method of figuring depreciation	F. Life or rate	G. Depreciation for this year
1 Class Life Asset Depreciation Range (CLADR) System Depreciation . . . . ▶						
2 Other depreciation (for grouping assets, see instructions for Part II):			▨	▨	▨	▨
Buildings						
Furniture and fixtures . .						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
3 Total (add amounts in column G). Enter here and in Part I, line 4						

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Instructions for 1981
Oregon Depreciation Schedule

Tax words

Useful life - The number of years you can reasonably expect to:
- use the property in your trade or business, or
- hold the property to produce income for you.

Depreciation - This is the way you deduct the cost of the property over its useful life. Property you depreciate must have a useful life of more than one year. Depreciation starts when you place the property in service. You place the property in service when you first make it available for use. You can't depreciate the cost of land.

Basis of property - Basis for figuring depreciation is the same basis you would use to figure the gain on the sale of that property. Generally, the cost of the property is its basis.

Salvage value - The amount you expect the property to be worth at the end of its useful life. Salvage value is figured when you acquire the property.

Methods of depreciation

You may use any method allowed under 1980 federal tax law. The most common methods of depreciation are explained below.

Straight-line. You may use the straight-line method for any depreciable property.

Here's how to figure straight-line depreciation:

1. Useful life (in years). 1 ______
2. Cost or other basis of property. 2 ______
3. Additional first-year depreciation on this property. 3 ______
4. Salvage value (see note). 4 ______
5. Line 3 plus line 4. 5 ______
6. Amount you will depreciate. Line 2 minus line 5. 6 ______
7. Depreciation for a full year. Line 6 ÷ line 1. 7 ______

If you had the property less than one year, you can take only part of a year's depreciation based on the number of months you had the property.

Note: Did you have personal property with a useful life of 3 years or more? If so, you may reduce the salvage value by 10 percent of the cost or other basis. Salvage value can't be less than -0-.

Declining balance - You may use the declining balance method only for certain kinds of property. Only the property below qualifies.

Qualifying property	Qualifying percentage
Real property	
• New residential rental property	200%
• Other new real property	150%
• Used residential property, 20 or more years of useful life	125%
Personal property with 3 or more years of useful life	
• New tangible personal property	200%
• Used tangible personal property	150%

Here's how to figure declining balance depreciation for each year:

1. Cost or other basis of property. ______
2. Depreciation taken in earlier tax years and first-year depreciation. ______
3. Line 1 minus line 2. ______
4. 1.0 divided by useful life. ______
5. Qualifying percentage (see above). ______
6. Line 4 multiplied by line 5. ______
7. Depreciation for a full year. Line 3 multiplied by line 6. ______

Don't subtract salvage value. But you can't depreciate your property below a reasonable salvage value.

Did you have the property less than one year? Then you may take only part of a year's depreciation. Figure your depreciation based on the number of months you had the property.

continued on back

Line instructions

We haven't included line instructions fully explained on the form.

Line 1. Additional first-year depreciation. You may be able to deduct 20 percent of the cost of the property in the first year. That is in addition to your regular depreciation deduction. The property must be tangible personal property with a useful life of at least six years. Examples of tangible personal property include machinery, office equipment, transportation equipment, printing presses, refrigerators, individual air conditioning units and grocery counters. It doesn't include real estate.

You may not take additional first-year depreciation for property you:
- got as a gift or inheritance
- got from certain related parties
- converted from personal use

You may claim the smaller of:
- 20 percent of the total cost of qualifying property, or
- $2,000 ($4,000, married filing jointly)

A partnership's additional first-year depreciation is limited to $2,000. Each partner's share of this amount plus any other additional first-year depreciation claimed by the partner can't total more than $2,000 ($4,000 on a joint return).

Figure your additional first-year depreciation before you figure your regular depreciation. Don't subtract salvage value before you figure additional first-year depreciation.

Did you trade old property for new property in a nontaxable exchange? The cost of the new property doesn't include the adjusted basis of the property traded in when you figure your additional first-year depreciation.

On line 1 fill in the total additional first-year depreciation for the year. Don't include the additional first-year depreciation on line 2.

Line 2. Other depreciation.

2a Fill in a brief description of the asset.

2b Fill in the date you placed the property in service.

2c Fill in the cost or other basis of your property.

2d What method of depreciation did you use? You may write SL for straight-line; DDB for 200 percent declining balance; 150% DB for 150 percent declining balance; or 125% DB for 125 percent declining balance.

2e Fill in the useful life of the property.

2f Fill in the Oregon depreciation you figure for this property.

2g Fill in the federal depreciation you claimed on this property.

Line 4. Depreciation in ending inventory. Did you include depreciation from assets listed on the schedule in inventory costs on the federal return? If so, you must figure ending inventory for Oregon.

4f Fill in any depreciation from **column f** to be included in Oregon ending inventory.

4g Fill in any depreciation from **column g** you included in ending inventory costs on your federal return.

Special cases

Accelerated depreciation for rehabilitated low-income housing is available for Oregon. Also you may use the Class Life Asset Depreciation Range (CLADR) system. These apply to only a few people so they aren't explained here.

Questions? Call TAX HELP:

Portland 224-8050
Salem 371-2244
Eugene 345-7577
Elsewhere in Oregon (toll free) 1-800-452-2838
Outside Oregon (not toll free) 1-503-371-2244
TTY (teletypewriter for those
with speech and hearing problems) 373-1826

OREGON
DEPARTMENT OF REVENUE

Oregon Depreciation Schedule 1981

Attach this form to your Oregon return.

Name	Social Security number or withholding registration number

Did you have property you began depreciating in 1981? If so, you must use **1980 federal law** to figure your Oregon depreciation. You can't use the new federal Accelerated Cost Recovery System (ACRS). ACRS is the depreciation you claimed on Part I of federal Form 4562.

Use this schedule to figure your "Oregon changes" for property you began depreciating in 1981.

Don't use this schedule for property you began depreciating before 1981. Your Oregon depreciation for that property will be the same as the depreciation on your federal return.

Full-year residents—On Form 40, **line 3**, fill in the amount from line 6 of this schedule.

Part-year and nonresidents—On Form 40NR, **line 23**, (federal portion) fill in the amount from line 6 of this schedule. On Form 40NR, **line 23** (Oregon portion), fill in the amount from line 6 of this schedule that is from:

- property you owned while an Oregon resident **OR**
- property used to produce Oregon income.

Note: The amount on line 6 of this schedule should include differences for depreciation on **all** property you began depreciating in 1981. This includes property you didn't use in an Oregon business.

For further instructions, see the separate instruction sheet 150-101-029.

For all assets placed in service after December 31, 1980

Description of property (a)	Date placed in service (b)	Cost or other basis (c)	Method of figuring depreciation (d)	Life or rate (e)	Oregon depreciation for property placed in service in 1981 (f)	Federal depreciation for the property (g)
1 Total additional first-year depreciation. See instructions for limits.→						▨
2 Other depreciation:	▨	▨	▨	▨	▨	▨

3 Totals 3

4 Depreciation on assets listed above in ending inventory 4

5 Balance. Line 3 minus line 4 5

6 Change in depreciation for Oregon. Line 5(g) minus line 5(f).
Fill in this amount on Form 40 or Form 40NR. (See instructions above) .... 6 ☐

150-101-025 (10-81)

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 10: Basis of Assets, Depreciation

1. Depreciate the following items on the depreciation schedules provided: disregard salvage value unless otherwise stated. All items acquired in current year, unless otherwise noted.
   Compute the maximum allowable depreciation for the following.
   Use first year additional depreciation whenever possible for Oregon purposes (joint return). All were bought on January 1.

   a. New truck: cost $25,000; life 5 years
   b. Used tractor: cost $15,000; life 10 years
   c. New brick store building: cost $50,000 (including land valued at $5,000); life 50 years
   d. Used rental house: cost $25,000 (including land valued at $5,000); life 20 years
   e. Adding machine: new, cost $150; life 10 years
   f. Used automobile: 50% business cost $3,500; life 4 years

2. Bob Tan bought a house. He paid $8,000 cash as a down payment and signed a mortgage for $72,000. What is Bob's basis in the house?

3. In 1955, Tom Alert gave his son, Bob, a stamp collection which cost him $600. The collection was worth $1,400 in 1955. No gift tax was paid. What is Bob's basis in the stamp collection?

4. a) Bill Baker buys rental property which costs him $150,000. At the time of purchase the assessed value of the land is $35,000 and the assessed value of the house is $100,000. What is the basis of the building for purposes of depreciation?

   b) Bill Green has an office in his home which is used regularly and exclusively as his principal place of business. Assume his basis in his home is $100,000. His office has 120 square feet, and his home has 2,400 square feet. What is his basis for depreciation on his office?

5. Tex Lear built a new home and decided to rent his old home. His old home is currently valued at $57,000 (not including land) and his adjusted basis in it is $40,000. What is his basis for depreciation when he converts it to rental property?

6. John and Jane Cheese purchased a home (house and lot) in Georgia for $24,000 in 1970 and lived in it until 1980, when they moved to Florida. They then rented the house. At the time they started to rent the house, the whole property had a fair market value of $48,000. It was determined through property tax assessment records that the house was assessed on a valuation of $11,000 in 1970 and $24,000 in 1980. The land was assessed on a valuation of $1,000 in 1970 and $4,000 in 1980.

   a) What is the basis of the house for depreciation purposes in 1980?

   b) What would be the basis for depreciation if the whole property had a fair market value of $20,000 in 1980?

7. Chris Butcher won an automobile valued at $5,200 in a sweepstakes contest in 1975. During 1976, she damaged the car, and claimed a casualty loss of $1,000 on her 1976 return. In 1980, she decided to convert the car to business use only. At that time, the car had a fair market value of $2,600. She claimed $800 depreciation on the car in 1980. What is her remaining adjusted basis for depreciation purposes?

8. Which of the following business properties will qualify as property eligible for the additional first-year allowance? Assume that the useful life at time of acquisition is at least 6 years. (Oregon Basis)

   a) A used machine purchased in 1981 for a factory.

   b) A new truck purchsed in 1981.

   c) A new factory building purchased in 1981.

   d) A patent granted in 1981.

   e) Machinery acquired by gift from the taxpayer's father in 1981.

9. John Black owns and operates a machine shop. On July 1, 1980, he bought a new drill press for $5,000. The drill press had a useful life of 7 years. He paid cash of $3,000 and traded in an old press which had an adjusted basis of $2,500. How much of the $5,000 purchase price of the new press is subject to the 20% first-year depreciation allowance?

10. Lee Pilot, married, operates a supermarket as a sole proprietor. The supermarket is located in a single-story brick building which he owns. On July 1, 1980, construction was completed on an $11,000 addition to the building. The addition had an estimated useful life of 33 1/3 years and a salvage value of $1,000. Determine the maximum depreciation deduction allowable on this acquistion on a 1980 joint return, using the declining-balance method.

11. **COMPLETE FORM 4562 AND OREGON DEPRECIATION SCHEDULE FOR FOLLOWING:**

Use the absolute maximum depreciation possible for Oregon in all cases. Joint return.

Item #1: Compressor - this was on last year's return showing a cost of $8,000 basis for depreciation. Prior depreciation $3,000 150% DB Held until June 30 this year and traded on item #2 below. 5yr. life.

Item #2: New Compressor cost $10,000; Boot required with trade-in $6,250. Life 7 years.

Item #3: Small tools, life 2 years; Purchased Jan 2, 1981; Cost $500 new.

Item #4: Truck on last years return shown with basis for depreciation of $25,000; prior depreciation $10,000; 200% DB; 5 year life

Item #5: Truck (used) life 5 years; Purchased 7/1/81; cost $10,000.

Item #6: Warehouse, purchased 1/2/1981; cost $50,000 new; 50 year life. (elect s/l for federal)

Item #7: Forklift purchase Jan 2 for $75,000 New; Salv. of $8,500; 10yr. life.

Item #8: Auto-used 100% for business. Last year's depreciation schedule showed pruchased 1/1/80 at cost of $10,000 150% DB; 3yr. life. Prior depreciation taken $5,000. However, taxpayer has kept a mileage log this year and would rather take optional mileage for 1981.

SESSION 11

SUPPLEMENTAL INCOME

(Rents, Royalties, Pensions, Annuities)

Reading Assignment: Publication 17, Ch. 11,12, Review 13
Publication 334, Ch. 12,17

A. VOCABULARY:

Annuitant

Annuity

Annuity starting date

Death benefit exclusion

Depletion

Exclusion ratio

Expected return

Investment in the contract

Joint and survivor annuities

Life expectancy

Lump-sum distribution

Payor

Pension

Refund feature

Single-life annuity

Tax-sheltered annuity

B. INTERVIEW QUESTIONS:

1. Do you own any income-producing property? For example: rentals, oil wells, standing timber?
2. Are you entitled to royalties from copyrights on books or patents on inventions?
3. Did you retire this year, or are you receiving a pension or annuity?
4. Do you have a vacation home that you rent?
5. Do you have any income from partnerships, estates or trusts, small business corporations?

Pensions and Annuities

A pension provides periodic payments to a retired employee and, in some cases, to the beneficiary of a retired or deceased employee.

A pension generally is periodic income received after retirement and made in consideration of past services with an employer.

The degree to which a pension is taxable depends on:

1) How much the taxpayer paid into the pension fund (called ***Investment in contract***), and
2) Whether the taxpayer retired on disability before reaching mandatory retirement age.

Taxpayer's Investment. When the taxpayer starts drawing a pension, there is no tax on the taxpayer's investment in the pension. The method of recovering the taxpayer's investment will be discussed later.

If a taxpayer retires on disability, in most cases the benefit payments may be treated as sick pay until the individual reaches mandatory retirement age. This is discussed in more detail in the chapter on sick pay. When the taxpayer reaches mandatory retirement age, disability payments are treated as pension income. At that time, the taxpayer begins to recover the investment.

An annuity also provides periodic payments but generally is obtained by the purchase of an annuity contract from an insurance company, a trust company, or individual. By way of contrast, a pension usually is based on an employee's past services. The purchaser or beneficiary of the plan usually is referred to as the ***annuitant*** and the company selling the plan as the ***payer.*** Upon reaching retirement age, the annuitant receives periodic payments according to the terms of the contract. The amount the annuitant receives depends on the type of annuity contract.

Some types are:

Fixed period of fixed amount annuity. A taxpayer receives specific annuity payments for a fixed number of years without regard to life expectancy.

Variable annuities. The annuitant receives payments that may vary in amount for a definite or determinable period of time. The variations may depend on profits earned by the pension or annuity funds, cost-of-living indexes or similar fluctuations.

Given term with guaranteed refund. Payments are to be received by the annuitant for a given number of years. If the annuitant dies before the term of the annuity plan expires, the beneficiary receives the annuitant's unrecovered cost of the plan.

Single life annuity. Payer agrees to make periodic payments to the annuitant only during the latter's lifetime. No benefits are payable to a beneficiary after the annuitant's death.

Joint and survivor annuities. Annuitant receives periodic payments for life. After the annuitant's death, the beneficiary may receive benefits in one of two ways:

1) The beneficiary receives the same periodic payments for life at the same intervals as did the annuitant; or
2) The beneficiary receives a smaller periodic payment for life than the annuitant did.

Taxation of Pensions and Annuities

You must determine how much, if any, of the pension or annuity is taxable.

Only ***amounts received as an annuity*** are taxed under the annuity taxation rules, which permit tax-free recovery of the annuitant's investment. This means that no portion of amounts ***not*** received as an annuity is considered a return of one's investment, consequently, such amounts are normally fully includible in gross income after the ***annuity starting date.***

Amounts received as an annuity generally are amounts payable at regular intervals for a period of more than one year from the ***annuity starting date,*** provided either the total of the amounts to be received or the period over which the annuity is to be paid can be determined as of that date. As a result, pension payments may be amounts received as an ***annuity.*** The ***annuity starting date*** is the later of January 1, 1954, or the first day of the first period for which an amount is received as an annuity, or the date the contractual obligation becomes fixed.

Amounts not received as an annuity include dividends, refund of premiums paid, and amounts received upon surrender, redemption, or maturity of an annuity contract. If received after the annuity starting date, they are fully includible in gross income; if received before that date, they are excludable until the aggregate of all such excludable amounts exceeds the amounts paid in by the annuitant.

Determining the Investment

A taxpayer will be able to recover his or her investment (usually cost) tax free. Any amount received in excess of such cost is taxable. If the taxpayer had *no* cost, then the pension or annuity generally is *fully* taxable.

The investment in the contract, which is recovered tax free, generally is the annuitant's actual dollar cost. However, sometimes adjustments to this cost are necessary. Two adjustments most often used are for a ***refund feature*** in the contract or for the ***death-benefit exclusion.***

Refund feature. Most pension or annuity contracts are based on the annuitant's life expectancy as determined from actuarial tables. An annuitant who lives longer than the life expectancy determined at the annuity starting date will receive more benefits than will an annuitant who does not live to the end of the life expectancy.

To provide for the annuitant who does not live to the end of the life expectancy, some annuity contracts have a refund feature—a guarantee that a beneficiary or the annuitant's estate will receive a refund of the remainder of the annuitant's cost still unrecovered at the time of death.

The annuitant's actual cost must be reduced by the value of this feature in computing the annuitant's investment in the contract. (Table II, Figure 9-2, is used for this computation.)

Example. John Jones, age 65, paid $20,000 for an annuity contract containing a refund feature. He will receive immediately $100 per month for life. If he does not live long enough to recover his $20,000 investment, his beneficiary will receive the balance. John's investment in the contract must be adjusted for the value of the feature as follows:

Total cost of contract		$20,000
Amount of benefits received annually	$1,200	
Number of years for which payment guaranteed ($20,000 ÷ $1,200)	16.7	
Round to nearest year	17	
Percentage provided by Actuarial Table II for male age 65 plus 17 years of guaranteed payments (See Table II)	28%	
Subtract the value of refund feature (28% of $20,000 from cost of $20,000)		5,600
Investment in contract (adjusted for value of refund feature)		$14,400

Note that John's cost (for tax purposes) has been reduced from $20,000 to $14,400. As a result, John will be able to exclude less of his pension payments because his beneficiary is expected to recover some of John's actual cost tax free.

The death-benefit exclusion is the second adjustment to investment in contract.

The beneficiary of an employee or former employee may exclude up to $5,000 of any death benefit paid by or on behalf of the employer.

Death benefits include benefits from a stock bonus, pension, or profit-sharing plan. But only one $5,000 exclusion is allowed per employee, regardless of the number of plans or employers the employee may have had. The exclusion generally applies to the amount by which the present value of the survivor annuity as of the date of the employee's death exceeds the employee's total regular contributions to the plan plus any accrued interest.

In applying this exclusion to a pension or annuity, the $5,000 generally is added to the annuitant's original cost. This increases the investment in the contract and allows the beneficiary to recover the increased cost tax free.

If the deceased employee had received any retirement pension or annuity payment under a joint and survivor contract, the beneficiary will not qualify for the death-benefit exclusion.

Determining Taxable Income under the Annuity Taxation Rules

There are two rules to determine how the taxpayer's cost will be recovered—the Three-Year Rule and the General Rule.

Three-Year Rule. If the taxpayer qualifies for the Three-Year Rule, the payments received are not taxed until the taxpayer's cost is recovered. Retired Federal, State, county, and municipal employees, including public school teachers and members of police and fire departments, usually will recover their cost in 3 years and will qualify for this treatment.

If a taxpayer qualifies for the Three-Year Rule but dies before receiving any pension or annuity payments, the beneficiary then qualifies for the Three-Year Rule.

Requirements for the Three-Year Rule:

1) The employer must have contributed part of the cost; and
2) The employee's cost must be recoverable within 36 months (3 years) after receiving the first payment.

After the employee's cost is recovered, payments are fully taxable. If the employee's beneficiary is eligible for the death-benefit exclusion, the beneficiary may use the exclusion in figuring whether the employee's cost will be recovered within 36 months.

Example. Frank Tailor retired from ABC Company on June 30, 1974, with a pension of $250 per month, starting July 1, 1974. His cost was $6,630. Within 36 months (3 years) he will receive $9,000 (36 × $250), which is more than his total cost of $6,630. The 3-year period begins on the effective date of retirement, in this case, July 1, 1974. His employer contributed part of the cost of the pension. From these facts you can see that the Three-Year Rule applies.

Frank's 1974 return (July 1 through December 31, 1974—6 months at $250 = $1,500).

Frank was still recovering his cost during 1975 and had no taxable pension to report on his 1975 Form 1040.

As of December 31, 1975, Frank had recovered $4,500 of his $6,630 cost ($1,500 in 1974 and $3,000 in 1975).

During 1976, he recovered all his cost from that point on, his pension payments became taxable.

Frank included the taxable part of his pension in gross income.

Since all of his pension income is now taxable, he will report his 1977 pension income on Form 1040 instead of Schedule E.

A retiree who contributed to an employer-employee financed retirement fund and who will recover his or her cost in 3 years *must* use the Three-Year Rule. However, an increase in the amount of monthly benefit payments during the 3-year period will not permit use of the Three-Year Rule if the taxpayer did not qualify for it when the first benefits were received.

Example. Jane Tinker retired June 30, 1975, and began to receive benefit payments of $120 per month starting July 1, 1975, from an employer-employee financed plan to which she contributed $4,420.

She will not recover her cost in 3 years and therefore does not qualify for the Three-Year Rule. ($120 per month × 36 months = $4,320)

On July 1, 1976, she received a cost-of-living increase of $8 per month.

$120 (per month) × 12 months (7/75 to 7/76) =	$1,440
$128 (per month) × 24 months (7/76 to 7/78) =	3,072
	$4,512

Jane still may not use the Three-Year Rule, even though she will now recover her cost in 3 years, because she could not have recovered it at her original monthly rate of $120.

For the individual who is already using the Three-Year Rule, this type of increase together with the basic payment is applied against the cost until recovered. When the benefit is increased, cost is recovered more quickly.

General rule. When the investment is not recoverable in 3 years, then only a portion of each annuity payment is excludable. To compute the excludable portion, a fraction, called the ***exclusion ratio,*** is computed by dividing the annuitant's investment in the contract (already discussed) by his or her ***expected return*** (explained in the next paragraph). The annuity payment is multiplied by the ratio, the result is the amount (or portion) of the payment that is excludable from gross income.

Expected return is the total amount to be received under the contract. This may be a ***fixed*** amount or an ***estimated*** amount.

Fixed period annuities are paid out over a fixed number of years no matter what the annuitant's life expectancy may be. Consequently, if an annuitant is to receive specific periodic payments for a definite period of time, such as a fixed number of months (but not less than 13) or years, the annuitant determines the expected return by multiplying the fixed number of years or months by the amount of each periodic payment.

A life annuity is paid out over the annuitant's (and, often, a survivor's) lifetime. In this case, the expected return is found by multiplying the amount of the annual payment by the period of time that it is estimated that the annuitant (and any survivor) will receive the annuity payments. This estimated period of time, called an ***expected return multiple,*** is determined actuarially. You can find these multiples in actuarial tables, some of which are included in this lesson. Publication 575, *Tax Information on Pension and Annuity Income,* contains many tables you will need to find expected return multiples. For a complete set of tables, obtain a copy of Publication 721, *Comprehensive Tax Guide to U.S. Civil Service Retirement Benefits* (Price $1.65—write the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20402.)

An adjustment of the multiples in the actuarial tables may be required if the payments are not made monthly, that is, if they are made quarterly, semiannually, or annually.

Age is the age of the annuitant at his or her birthday nearest the annuity starting date (defined earlier).

Look at the excerpt from Table 1 for ordinary one-life annuities (Figure 9-1). Notice that male and female ages are shown separately. Read across to the column marked multiples (remaining expected years of life at this age). You will see the life expectancy differs for males and females of the same age.

Example. You want to determine the life expectancy of a male annuitant, age 55, as of the annuity starting date. Go to the column headed "male," find age 55 and read across to multiple 21.7. This is the expected remaining years of life.

Applying the exclusion ratio. If the payments to be received are based on life expectancy, the recovery of the investment in the contract must be spread over the expected life. Part of each payment received is taxable and part is excluded because it represents the taxpayer's investment.

$$\frac{\text{Investment in Contract}}{\text{Expected Return}} = \text{Exclusion Ratio}$$

Once the ratio is computed it never changes, regardless of how long the annuitant lives. If after the ratio is established the payments for some reason are increased, the ratio applies to the original payments each year; the increase is fully taxable.

A review of some of the different types of annuities shows their relation to the General Rule.

Fixed period. Taxpayer receives an annuity for a fixed number of years without regard to life expectancy.

Example. Bob Oak invests $7,500 in an annuity contract that will pay him $1,000 a year for 10 years, starting at age 65, if he remains alive. The taxable portion of his first year's annuity payment is computed as follows:

$$\frac{\text{Investment in Contract } \$7{,}500}{\text{Expected Return } \$10{,}000} = 75\% \text{ Exclusion Ratio}$$

Amount excludable: $750 (75% of $1,000)
Amount taxable: $250 ($1,000 less $750)

Given term with guaranteed refund. You will recall that some annuities guarantee a minimum period of payments. If the annuitant dies before receiving all the payments, the beneficiary receives the balance of the payments tax free. In such a case remember to adjust the annuitant's cost using Table II (Figure 9-2).

Example. At age 65 Herman Chestnut purchased an annuity with refund feature for $21,053. It will pay starting immediately, $100 per month for life. If Herman does not live to recover his cost, a beneficiary will receive the balance. The taxable portion of yearly annuity payments is computed as follows:

Total cost			$21,053
Annual benefit payments		$1,200	
Number of years for which payment is guaranteed ($21,053 divided by $1,200)	17.5		
Rounded to nearest whole year	18		
Percentage from Table II (Figure 9-2) for male age 65 and 18 years guaranteed payment	30%		
Subtract the value of refund feature (30% of $21,053) from total cost			$6,316
Investment in contract adjusted for refund feature			$14,737

$$\frac{\text{Investment \$14,737}}{\text{Expected return \$18,000}} = 81.9\% \text{ Exclusion Ratio}$$

($1,200 annual payments × 15 years life expectancy)

Amount excludable—$982.80 (81.9% of $1,200)

Amount taxable—$217.20 ($1,200 less $982.80)

One-life annuity. The payer agrees to make periodic payments to the annuitant for life, with no benefits payable to a beneficiary after the annuitant's death.

Example. Jack Pine invested $9,000 in this type of annuity which will pay $1,000 a year for life beginning at age 65. What amount of the first year's $1,000 benefit payment will be taxable? First, find his life expectancy in Table I (Figure 9-1) for male age 65 (taxpayer's age at starting date) and then determine the expected return. In this case Table I shows the taxpayer's life expectancy is 15 years.

15 years × $1,000 per year = $15,000 expected return.

No refund feature having been mentioned, his investment was $9,000.

$$\frac{\text{Investment in Contract \$9,000}}{\text{Expected Return \$15,000}} = 60\% \text{ Exclusion Ratio}$$

Amount excludable. $600 (60% of $1,000)
Amount taxable. $400 ($1,000 less $600)

A variation of a one-life annuity is a one-life annuity with a guaranteed refund. If the annuitant's cost is not recovered before death, the balance is refunded to a beneficiary. The investment in the contract must be adjusted for this refund feature.

Joint and survivor annuities. There are two types.

Under the first type the annuitant receives periodic payments for life. After the annuitant's death, the beneficiary receives identical payments for life. The expected return is determined on the basis of the combined life expectancies of both. The exclusion ratio remains the same for both annuitant and beneficiary.

Example. Husband purchases a joint and survivor annuity contract for $20,000 providing payments of $100 per month for life. After his death, his wife, as beneficiary, will receive $100 a month for the rest of her life. When the annuity starts, the taxpayer is age 70, and his wife is age 67. The taxable part of $1,200 yearly payments is computed as follows:

First, determine the expected return, using Table III (Figure 9-6), joint life expectancies.

Annual payment (12 × $100)	$1,200
Multiple (male 70, female 67)	19.7
Expected return ($1,200 × 19.7)	$23,640

$$\frac{\text{Investment \$20,000}}{\text{Expected Return \$23,640}} = 84.6\% \text{ Exclusion Ratio}$$

Amount excludable: $1,015.20 (84.6% of $1,200)
Amount taxable: $ 184.80 ($1,200.00 less $1,015.20)

The second type of joint and survivor annuity provides for different (rather than identical) payments to the beneficiary on annuitant's death. Two tables must be used for this computation.

Example. Husband purchases joint and survivor annuity which will pay $100 per month to him for life. On his death his wife will receive payments of $50 a month for the rest of her life. As of annuity starting date taxpayer is 70 and his wife is 67 years of age.

First we find the joint multiple for a male, 70 and a female, 67 from Table III (Figure 9-6)	19.7
Next we determine from Table I (Figure 9-1) the multiple for one life Male age 70)	12.1
Subtract (this represents the multiple to be used on payments received by wife)	7.6
Expected Return—Husband	
$100 × 12 = $1,200 per year × 12.1	$14,520
Expected Return—Wife	
$50 × 12 = $600 per year × 7.6	$4,560
Total expected return	$19,080

Summary of General Rule

Step 1

Determine the amount of the ***Investment in the Contract.*** Enter this amount on line 2, Part 1, Schedule E (Form 1040).

Step 2

Determine the ***Expected Return.***

Step 3

Divide the ***Investment in the Contract*** (1) by the ***Expected Return*** (2) to determine the ***exclusion percentage.***

Step 4

Multiply the exclusion percentage (3) by the initial monthly rate of the annuity. The result is the tax-free portion of each monthly payment received. The tax-free portion remains the same each year the payments are received.

Step 5

Multiply the monthly tax-free portion (4) by the number of payments received during the year for the ***tax-free amount for the year.*** Enter on line 4, Part 1, Schedule E (Form 1040).

Step 6

Determine the total amount of annuity received during the year. Enter on line 3, Part 1, Schedule E (Form 1040).

Step 7

Subtract the result in Step 5 from the amount in Step 6. The remainder is the *Taxable Portion of Annuity.*

Actuarial tables. If the information you need is not included in the following actuarial tables, contact your Internal Revenue office.

Table I (One Life) applies to all ages. The remaining tables apply to males age 35 to 90 and females age 40 to 95.

Table I.—Ordinary Life Annuities—One Life—Expected Return Multiples

Ages		Multiples	Ages		Multiples	Ages		Multiples
Male	Female		Male	Female		Male	Female	
6	11	65.0	41	46	33.0	76	81	9.1
7	12	64.1	42	47	32.1	77	82	8.7
8	13	63.2	43	48	31.2	78	83	8.3
9	14	62.3	44	49	30.4	79	84	7.8
10	15	61.4	45	50	29.6	80	85	7.5
11	16	60.4	46	51	28.7	81	86	7.1
12	17	59.5	47	52	27.9	82	87	6.7
13	18	58.6	48	53	27.1	83	88	6.3
14	19	57.7	49	54	26.3	84	89	6.0
15	20	56.7	50	55	25.5	85	90	5.7
16	21	55.8	51	56	24.7	86	91	5.4
17	22	54.9	52	57	24.0	87	92	5.1
18	23	53.9	53	58	23.2	88	93	4.8
19	24	53.0	54	59	22.4	89	94	4.5
20	25	52.1	55	60	21.7	90	95	4.2
21	26	51.1	56	61	21.0	91	96	4.0
22	27	50.2	57	62	20.3	92	97	3.7
23	28	49.3	58	63	19.6	93	98	3.5
24	29	48.3	59	64	18.9	94	99	3.3
25	30	47.4	60	65	18.2	95	100	3.1
26	31	46.5	61	66	17.5	96	101	2.9
27	32	45.6	62	67	16.9	97	102	2.7
28	33	44.6	63	68	16.2	98	103	2.5
29	34	43.7	64	69	15.6	99	104	2.3
30	35	42.8	65	70	15.0	100	105	2.1
31	36	41.9	66	71	14.4	101	106	1.9
32	37	41.0	67	72	13.8	102	107	1.7
33	38	40.0	68	73	13.2	103	108	1.5
34	39	39.1	69	74	12.6	104	109	1.3
35	40	38.2	70	75	12.1	105	110	1.2
						106	111	1.0
36	41	37.3	71	76	11.6	107	112	.8
37	42	36.5	72	77	11.0	108	113	.7
38	43	35.6	73	78	10.5	109	114	.6
39	44	34.7	74	79	10.1	110	115	.5
40	45	33.8	75	80	9.6	111	116	0

Table II – Percent value of refund feature

ages		duration of guaranteed amount												
male	female	14 years	15 years	16 years	17 years	18 years	19 years	20 years	21 years	22 years	23 years	24 years	25 years	26 years
		Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
46	51	6	7	7	8	9	9	10	11	12	12	13	14	15
47	52	7	7	8	9	9	10	11	12	12	13	14	15	16
48	53	7	8	8	9	10	11	12	12	13	14	15	16	17
49	54	8	8	9	10	11	11	12	13	14	15	16	17	18
50	55	8	9	10	11	11	12	13	14	15	16	17	18	20
51	56	9	10	10	11	12	13	14	15	16	17	18	20	21
52	57	9	10	11	12	13	14	15	16	17	18	20	21	22
53	58	10	11	12	13	14	15	16	17	19	20	21	22	24
54	59	11	12	13	14	15	16	17	18	20	21	22	24	25
55	60	11	13	14	15	16	17	18	20	21	22	24	25	26
56	61	12	13	15	16	17	18	20	21	22	24	25	27	28
57	62	13	14	16	17	18	20	21	22	24	25	27	28	30
58	63	14	15	17	18	19	21	22	24	25	27	28	30	31
59	64	15	16	18	19	21	22	24	25	27	28	30	31	33
60	65	16	18	19	20	22	24	25	27	28	30	32	33	35
61	66	17	19	20	22	23	25	27	28	30	32	33	35	37
62	67	18	20	22	23	25	27	28	30	32	33	35	37	38
63	68	20	21	23	25	26	28	30	32	33	35	37	39	40
64	69	21	23	24	26	28	30	32	33	35	37	39	41	42
65	70	22	24	26	28	30	32	33	35	37	39	41	42	44
66	71	24	26	28	29	31	33	35	37	39	41	43	44	46
67	72	25	27	29	31	33	35	37	39	41	43	45	46	48
68	73	27	29	31	33	35	37	39	41	43	45	47	48	50
69	74	28	30	33	35	37	39	41	43	45	57	48	50	52
70	75	30	32	34	37	39	41	43	45	47	59	50	52	54
71	76	32	34	36	39	41	43	45	47	49	51	52	54	56
72	77	34	36	38	41	43	45	47	49	51	53	54	56	58
73	78	35	38	40	43	45	47	49	51	53	55	56	58	59
74	79	37	40	42	45	47	49	51	53	55	57	58	60	61
75	80	39	42	44	47	49	51	53	55	57	58	60	62	63
76	81	41	44	46	49	51	53	55	57	59	60	62	63	65
77	82	43	46	48	51	53	55	57	59	61	62	64	65	66
78	83	45	48	50	53	55	57	59	61	62	64	65	67	68
79	84	48	50	53	55	57	59	61	63	64	66	67	68	70
80	85	50	52	55	57	59	61	63	64	66	67	69	70	71
81	86	52	54	57	59	61	63	65	66	68	69	70	72	73
82	87	54	56	59	61	63	65	66	68	69	71	72	73	74
83	88	56	58	61	63	65	66	68	70	71	72	73	74	75
84	89	58	60	63	65	67	68	70	71	73	74	75	76	77
85	90	60	62	65	67	68	70	71	73	74	75	76	77	...”

Figure 9-2

Table I. Ordinary life annuities – one life -- expected return multiples

ages		multiples	ages		multiples	ages		multiples
male	female		male	female		male	female	
6	11	65.0	41	46	33.0	76	81	9.1
7	12	64.1	42	47	32.1	77	82	8.7
8	13	63.2	43	48	31.2	78	83	8.3
9	14	62.3	44	49	30.4	79	84	7.8
10	15	61.4	45	50	29.6	80	85	7.5
11	16	60.4	46	51	28.7	81	86	7.1
12	17	59.5	47	52	27.9	82	87	6.7
13	18	58.6	48	53	27.1	83	88	6.3
14	19	57.7	49	54	26.3	84	89	6.0
15	20	56.7	50	55	25.5	85	90	5.7
16	21	55.8	51	56	24.7	86	91	5.4
17	22	54.9	52	57	24.0	87	92	5.1
18	23	53.9	53	58	23.2	88	93	4.8
19	24	53.0	54	59	22.4	89	94	4.5
20	25	52.1	55	60	21.7	90	95	4.2
21	26	51.1	56	61	21.0	91	96	4.0
22	27	50.2	57	62	20.3	92	97	3.7
23	28	49.3	58	63	19.6	93	98	3.5
24	29	48.3	59	64	18.9	94	99	3.3
25	30	47.4	60	65	18.2	95	100	3.1
26	31	46.5	61	66	17.5	96	101	2.9
27	32	45.6	62	67	16.9	97	102	2.7
28	33	44.6	63	68	16.2	98	103	2.5
29	34	43.7	64	69	15.6	99	104	2.3
30	35	42.8	65	70	15.0	100	105	2.1
31	36	41.9	66	71	14.4	101	106	1.9
32	37	41.0	67	72	13.8	102	107	1.7
33	38	40.0	68	73	13.2	103	108	1.5
34	39	39.1	69	74	12.6	104	109	1.3
35	40	38.2	70	75	12.1	105	110	1.2
36	41	37.3	71	76	11.6	106	111	1.0
37	42	36.5	72	77	11.0	107	112	.8
38	43	35.6	73	78	10.5	108	113	.7
39	44	34.7	74	79	10.1	109	114	.6
40	45	33.8	75	80	9.6	110	115	.5
						111	116	0"

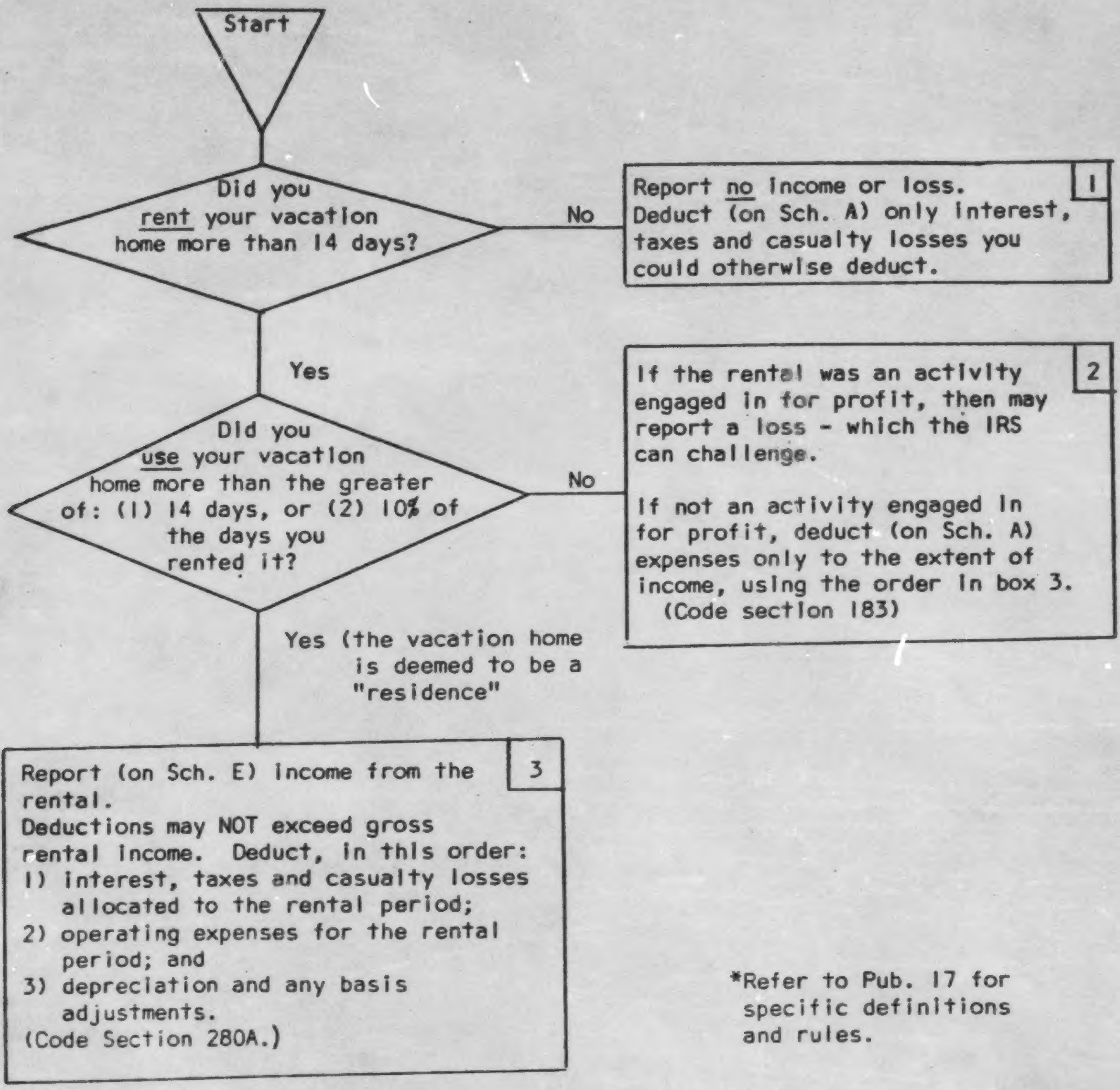
Figure 9-1

Table II.—Ordinary Joint Life and Last Survivor Annuities—Two Lives—Expected Return Multiples—Continued

Ages														
	Male	61	62	63	64	65	66	67	68	69	70	71	72	73
Male	Female	66	67	68	69	70	71	72	73	74	75	76	77	78
35	40	39.4	39.3	39.2	39.1	39.0	38.9	38.9	38.8	38.8	38.7	38.7	38.6	38.
36	41	38.5	38.4	38.3	38.2	38.2	38.1	38.0	38.0	37.9	37.9	37.8	37.8	37.
37	42	37.7	37.6	37.5	37.4	37.3	37.3	37.2	37.1	37.1	37.0	36.9	36.9	36.
38	43	36.9	36.8	36.7	36.6	36.5	36.4	36.4	36.3	36.2	36.2	36.1	36.0	36.
39	44	36.2	36.0	35.9	35.8	35.7	35.6	35.5	35.5	35.4	35.3	35.3	35.2	35.
40	45	35.4	35.3	35.1	35.0	34.9	34.8	34.7	34.6	34.6	34.5	34.4	34.4	34.
41	46	34.6	34.5	34.4	34.2	34.1	34.0	33.9	33.8	33.8	33.7	33.6	33.5	33.
42	47	33.9	33.7	33.6	33.5	33.4	33.2	33.1	33.0	33.0	32.9	32.8	32.7	32.
43	48	33.2	33.0	32.9	32.7	32.6	32.5	32.4	32.3	32.2	32.1	32.0	31.9	31.
44	49	32.5	32.3	32.1	32.0	31.8	31.7	31.6	31.5	31.4	31.3	31.2	31.1	31.1
45	50	31.8	31.6	31.4	31.3	31.1	31.0	30.8	30.7	30.6	30.5	30.4	30.4	30.3
46	51	31.1	30.9	30.7	30.5	30.4	30.2	30.1	30.0	29.9	29.8	29.7	29.6	29.5
47	52	30.4	30.2	30.0	29.8	29.7	29.5	29.4	29.3	29.1	29.0	28.9	28.8	28.7
48	53	29.8	29.5	29.3	29.2	29.0	28.8	28.7	28.5	28.4	28.3	28.2	28.1	28.0
49	54	29.1	28.9	28.7	28.5	28.3	28.1	28.0	27.8	27.7	27.6	27.5	27.4	27.3
50	55	28.5	28.3	28.1	27.8	27.6	27.5	27.3	27.1	27.0	26.9	26.7	26.6	26.5
51	56	27.9	27.7	27.4	27.2	27.0	26.8	26.6	26.5	26.3	26.2	26.0	25.9	25.8
52	57	27.3	27.1	26.8	26.6	26.4	26.2	26.0	25.8	25.7	25.5	25.4	25.2	25.1
53	58	26.8	26.5	26.2	26.0	25.8	25.6	25.4	25.2	25.0	24.8	24.7	24.6	24.4
54	59	26.2	25.9	25.7	25.4	25.2	25.0	24.7	24.6	24.4	24.2	24.0	23.9	23.8
55	60	25.7	25.4	25.1	24.9	24.6	24.4	24.1	23.9	23.8	23.6	23.4	23.3	23.1
56	61	25.2	24.9	24.6	24.3	24.1	23.8	23.6	23.4	23.2	23.0	22.8	22.6	22.5
57	62	24.7	24.4	24.1	23.8	23.5	23.3	23.0	22.8	22.6	22.4	22.2	22.0	21.9
58	63	24.3	23.9	23.6	23.3	23.0	22.7	22.5	22.2	22.0	21.8	21.6	21.4	21.3
59	64	23.8	23.5	23.1	22.8	22.5	22.2	21.9	21.7	21.5	21.2	21.0	20.9	20.7
60	65	23.4	23.0	22.7	22.3	22.0	21.7	21.4	21.2	20.9	20.7	20.5	20.3	20.1
61	66	23.0	22.6	22.2	21.9	21.6	21.3	21.0	20.7	20.4	20.2	20.0	19.8	19.6
62	67	22.6	22.2	21.8	21.5	21.1	20.8	20.5	20.2	19.9	19.7	19.5	19.2	19.0
63	68	22.2	21.8	21.4	21.1	20.7	20.4	20.1	19.8	19.5	19.2	19.0	18.7	18.5
64	69	21.9	21.5	21.1	20.7	20.3	20.0	19.6	19.3	19.0	18.7	18.5	18.2	18.0
65	70	21.6	21.1	20.7	20.3	19.9	19.6	19.2	18.9	18.6	18.3	18.0	17.5	7.5
66	71	21.3	20.8	20.4	20.0	19.6	19.2	18.8	18.5	18.2	17.9	17.6	17.3	17.1
67	72	21.0	20.5	20.1	19.6	19.2	18.8	18.5	18.1	17.8	17.5	17.2	16.9	16.7
68	73	20.7	20.2	19.8	19.3	18.9	18.5	18.1	17.8	17.4	17.1	16.8	16.5	16.2
69	74	20.4	19.9	19.5	19.0	18.6	18.2	17.8	17.4	17.1	16.7	16.4	16.1	15.8
70	75	20.2	19.7	19.2	18.7	18.3	17.9	17.5	17.1	16.7	16.4	16.1	15.8	15.5
71	76	20.0	19.5	19.0	18.5	18.0	17.6	17.2	16.8	16.4	16.1	15.7	15.4	15.1
72	77	19.8	19.2	18.7	18.2	17.8	17.3	16.9	16.5	16.1	15.8	15.4	15.1	14.8
73	78	19.6	19.0	18.5	18.0	17.5	17.1	16.7	16.2	15.8	15.5	15.1	14.8	14.4

VACATION HOME RENTALS

General Guidelines for Reporting Income and Expenses*



Did you rent your vacation home more than 14 days?

Report no income or loss. Deduct (on Sch. A) only interest, taxes and casualty losses you could otherwise deduct.

Did you use your vacation home more than the greater of: (1) 14 days, or (2) 10% of the days you rented it?

If the rental was an activity engaged in for profit, then may report a loss - which the IRS can challenge.

If not an activity engaged in for profit, deduct (on Sch. A) expenses only to the extent of income, using the order in box 3. (Code section 183)

Yes (the vacation home is deemed to be a "residence"

Report (on Sch. E) income from the rental.
Deductions may NOT exceed gross rental income. Deduct, in this order:
1) interest, taxes and casualty losses allocated to the rental period;
2) operating expenses for the rental period; and
3) depreciation and any basis adjustments.
(Code Section 280A.)

*Refer to Pub. 17 for specific definitions and rules.

Windfall profit tax Summary.--Taxpayers who have Windfall Profit Taxes withheld from their oil royalties in 1981 are entitled to deduct them. Also, taxpayers who receive Windfall Profit Tax credits or refunds in 1981 that were deducted on their 1980 tax returns must report them as 1981 income. And the place to do all this is in Part III, Schedule E. Form 1040 on Lines 34-36.

WHAT TO DO--Enter any Windfall Tax credit or refund the taxpayer received in 1981 on Line 34. Enter any Windfall Tax withheld from the taxpayer's oil royalties in 1981 on Line 35. Then combine Lines 34 and 35 and enter the result on Line 36. Finally, combine the result on Line 36 with all of the taxpayer's other Schedule E income, enter the total on Line 37, Schedule E and carry it to, and enter it on, Line 17, Form 1040.

Examples

1. During 1981 a Royalty owner had $500 royalty income and $80 W.P.T. W/H, how does he claim the credit?

File Form 6249-A and claim credit, put income on Sched. E with $0 for W.P.T. expense (80 W.P.T. -- $80 credit claimed).

2. TP has working interest in oil operation. Form 6248 shows W.P.T. liability of $700 and W.P.T. W/H of $900. How to claim refund?

File Form 6249 and claim $200 refund, put income on Sched. E and put $900 on Sched. E Ln 35 as expense. When TP receives $200 refund in 1982 it will be income (Ln 34 Sched. E) because TP took full expense on 1981 return.

3. During 1981 a Royalty owner had $10,000 royalty income and $3500 W.P.T. W/H. TP's 6248 showed W.P.T. liability of $3,200. What does he do?

Put income in Sched. E, claim $2,500 Royalty owner credit and $300 overwithholding on Form 6249. Claim $1,000 expense (3500-2500) on line 35 of Sched. E.

4. I received a $1000 royalty owner credit refund in June 1981. Is this income?

No.

5. I received a refund (8-81) of the amount of W.P.T. that was overpaid. Is this income?

Yes. Report on line 34 Sched E.

6. Last year (1980) I took an expense for the 450 W.P.T. that was W/H on my Sched E. I received the refund of 450 in July 1981. Is this income? (TP is royalty owner)

No. However, TP must file 1040X and reduce 450 expense by amount of Royalty owner credit claimed.

Line 34

Under certain situations, you must report as income on line 34 the amount of any credit or refund of overpaid windfall profit tax you received in 1981 for tax year 1980, based on overwithholding or the net income limitation.

In general, the amount of credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1980 on Schedule E, and recieved a tax benefit for the deduction on your 1980 tax return.

DO NOT include as income the amount of any royalty owner's credit claimed for tax year 1980.

Line 35

If you are a cash method taxpayer, deduct on line 35 the amount of windfall profit tax actually withheld in 1981.

However, you must reduce the deduction by the amount of any royalty owner's credit or refund you claim for tax year 1981, including any part of the credit you used to offset any outstanding annual windfall profit tax liability.

DEPLETION EXAMPLES:

Mr. Winter bought a timber tract for $100,000. The land was worth 30% of the total purchase price. There was estimated to be 2,000 MBF of timber in the tract. If Mr. Winter had one-quarter of the timber cut last year, what was his allowable depletion?

$17,500 (Basis of timber, $70,000 divided by 2,000 MBF = $35 depletion unit x 500 MBF = $17,500).

a) Mr. Blue purchased a mine for $60,000. He estimated that there were 300,000 tons of ore to be extracted. Using the cost depletion method, figure Mr. Blue's depletion allowance for the first year when 10,000 tons of ore were mined.

b) The following year Mr. Blue extracted 30,000 tons of ore. A revised estimate at this time indicated that there were 550,000 tons unextracted. Figure the depletion allowance for the second year.

a) Rate of depletion ($60,000 divided by 300,000 tons) =$.20 per ton. Depletion for year ($.20 x 10,000) = $2,000.

b) Revised estimate of unextracted tonnage. . . .	550,000
Tons mined during year. . .	30,000
Total tonnage to be used in figuring new rate.	580,000
Original cost	$60,000
First year's depletion	2,000
Remaining cost	$58,000

New rate of depletion ($58,000 divided by 580,000 tons) = $.10 per ton.

Depletion for year ($.10 x 30,000) = $3,000.

ASSIGNED PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

Session 11: Supplemental Income

1. Ms. Executive owns a three-room apartment which rents for $150 a month. It was rented on February 1, and the tenant signed a one-year lease which required a security deposit of $300. At the end of the lease, the tenant moved and Ms. Executive had to refund $200 of the deposit to the tenant. She withheld $100 of the security deposit because she had to repair several damaged items. How does Ms. Executive report the $300, $200, and $100 transactions?

2. Kim Swimmer is a cash-basis taxpayer. She leases an apartment on a yearly basis to Henry, who moves owing 4 months rent. Can she deduct this unpaid rent as an expense?

3. John Chessman, owner of a two-family house, rents out one-half of the house. His tenant pays Mr. Chessman's taxes of $300. Does Mr. Chessman have to report the $300 as rental income?

4. Tom Tailor purchased a three-family complex, which he intends to rent. He paid $80,000 for the entire property. The FMV of the building is $60,000 and the FMV of the land is $20,000. What dollar amount can Tom use for depreciation purposes?

5. Pat Professor purchased rental property for $52,000. The tax assessment shows the land is assessed at $8,000 and the building is assessed at $12,000. What is the depreciable basis of the rental?

6. Mr. Robert Singer purchased a one-family home in 1969 for $20,000 (building only) and over the years made improvements costing $5,000. In 1979, when he converted his residence to rental property, the building had a FMV of $35,000. What is Mr. Singer's basis for depreciation?

7. Belle Pilot converted her 20-year-old home to rental property and rented it for the entire year. Her original cost for the entire property was $20,000. There were no capital improvements. Belle doesn't know the separate cost of the building, but her tax assessment shows the land is now assessed at $15,000 and the building is assessed at $10,000. The present FMV of the total property is $35,000. What is her basis for depreciation on the building?

8. John Baker rents out one-half of the house he lives in at 123 Jones Street, Eugene, OR 97401. He received gross rents of $2,000 for the year. His Social Security number is 123-56-7456.

His expenses for the year were as follows:

Taxes	$500	(for entire property)
Interest	200	(for entire property)
Repairs	150	(tenant's apartment only)
Insurance	150	(for 3-years for entire property)
Painting	100	(tenant's apartment)
Fuel	200	(for entire property)
Utilities	100	(for entire property)

Depreciation, straight-line, property basis $50,000.
Land $10,000 additional. Acquired July 1, 1977.
Rate: 3% a year.
Previous depreciation: $1875
Complete Schedule E.

9. Ruth owns a vacation home at a beach resort. She rented it to a family in June and July for a total of $3,000. Ruth and her family lived in the home during their vacation in August. The expenses for the house for 3 months were $1,200 interest, $600 real estate taxes, $600 maintenance, and $300 utilities. The total depreciation for 3 months would be $1,200 if the home had been used only for rental purposes and not for personal use. On the basis of these facts, compute the net rental income she would put on Schedule E. and the deductions she would show on schedule A.

10. Suppose Ruth, in the previous example, had rented her beach house from June 1 through August 9 and used it herself from August 10 through August 23, but that all other facts are the same. Compute the net rental income she would show on Schedule E and the deductions she would claim on Schedule A.

11. Mike Bishop purchased a retirement plan from the RST Trust Company. When he reaches retirement age, he will, according to the terms of the contract, receive periodic payments of a sum of money. Is the plan Mr. Bishop purchased a pension or annuity?

12. List four common types of pensions or annuities.

13. Pat Jeweler retired from a manufacturing firm. Based on her past service, she (or her beneficiary) will receive periodic payments from the firm's employee retirement fund. Will she be receiving a pension or annuity?

14. A. Using Table 1, attached, determine the life expectancy (multiple) of Jane Lawyer, whose age as of the annuity starting date will be closest to 63.

B. Mrs. Lawyer retired on January 1, 1979. She is to receive monthly pension checks of $350 for as long as she lives. Her investment in the contract was $14,200. What is her exclusion ratio?

C. If Mrs. Lawyer receives 12 monthly checks in 1979, how much of her pension will be taxable for 1979?

15. Max Mason has annual benefits of $1,200/yr for life from an annuity plan. His cost was $12,000 and his age closest to the annuity starting date wrs 65. Compute the amounts of his excludable benefits as well as his taxable portion for a full year.

16. Joe Grocer purchases a joint and survivor annuity at a cost of $14,310 which will pay $100 a month to him for life. On his death his wife will receive payments of $50 a month for the rest of her life. As of the annuity starting date, Joe is 70 and his wife is 67. ✓

1. Find the joint multiple from Table II attached (male 70; female 67)

2. Determine from Table 1 the multiple for single life (male age 70) as if this were a single life annuity.

3. Subtract (this represents the multiple to be used on payments received by the wife).

4. Compute the expected return of the husband.

5. Compute the expected return of the wife.

6. Total expected return for both.

The expected return is used with the investment in the contract to compute the exclusion ratio. The same exclusion ratio is applied to the amount received by Joe and the amount received by his wife after his death.

A. What is the taxpayer's exclusion ratio?

B. How much is taxable each year to Joe Grocer?

C. On his death, how much will be taxable each year to his widow?

17. A. An annuity was purchased by a taxpayer at a cost of $8,000. Benefit payments will be $1,000 a year for 10 years starting at age 65. What is the taxpayer's exclusion ration? How much of the $1,000 yearly benefit is taxable?

B. A female taxpayer purchases an annuity on her life at a cost of $12,000. Beginning at age 65, the annuity will pay her monthly benefits of $100. There is no refund feature. What is the taxpayer's exclusion ratio? How much of the $1,200 yearly benefit [illegible] excludable?

C. A joint and survivor annuity was purchased by a male taxpayer at a cost of $20,000. The contract provides payments of $100 a month for life. When the annuity starts, the taxpayer is 69 and his wife is 66. What is their exclusion ratio? How much of the $1,200 yearly benefit is excludable?

18. A. What is the maximum amount of death benefit exclusion allowed?

B. If an employee dies and the employer pays the beneficiary a $2,500 death benefit, is the benefit taxable to the beneficiary?

C. List two rules which will allow a beneficiary to use the death benefit exclusion.

D. Are beneficiaries of deceased self-employed individuals who recieve benefits from self-employed retirement plans allowed to use the death benefit exclusion against such payments?

19. Mike Painter wants to know how much of his yearly benefit will be taxable. He is single and purchased an annuity for $8,000 which will provide him with $100 a month for life. At the annuity starting date, his nearest age will be 64 years.

EXAMPLE OF PARTNERSHIP K-1

SCHEDULE K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.—1981
For calendar year 1981 or fiscal year
beginning ...., 1981, and ending ...., 19....
(Complete for each partner. Instructions for partners attached to Copy C.)

OMB No. 1545-0099

Copy A
(File with Form 1065)

Partner's identifying number ▶

Partner's name, address, and ZIP code
GEORGE HUNT
642 HIGH STREET
ROSLYN, NEW YORK 11554

Partnership's identifying number ▶

Partnership's name, address, and ZIP code
GEORGE HUNT & CO.
850 WEST 90TH ST.
N.Y., N.Y. 10024

A Is partner a general partner (see page 2 of instructions)? ☑ Yes ☐ No

B Partner's share of liabilities (see page 7 of instructions):
Nonrecourse $ 20,000
Other $ 14,663

C Enter partner's percentage of:

	(i) Before decrease or termination	(ii) End of year
Profit sharing	%	50 %
Loss sharing	%	50 %
Ownership of capital	%	50 %

D What type of entity is this partner? ▶ INDIVIDUAL

E Reconciliation of partner's capital account:

a. Capital account at beginning of year	b. Capital contributed during year	c. Ordinary income (loss) from line 1	d. Income not included in column c, plus nontaxable income	e. Losses not included in column c, plus unallowable deductions	f. Withdrawals and distributions	g. Capital account at end of year
25,362		2,860	4,621	560	8,234	24,049

	a. Distributive share item	b. Amount	c. 1040 filers enter the amount in column b on:
Income (loss)	1 Ordinary income (loss)	2,860	Sch. E, Part II
	2 Guaranteed payments	3,000	Sch. E, Part II
	3a Interest qualifying for exclusion under section 116		Sch. B, Part I, line 1a
	b Qualifying interest from All-Savers Certificates		Sch. B, Part I, line 1c
	4 Dividends qualifying for exclusion	78	Sch. B, Part II, line 3
	5 Net short term capital gain (loss): a Total for year ▶	(380)	Sch. D, line 3, col. f. or g.
	b From sales or exchanges after 6/9/81		See Sch. D, Part IV
	6 Net long-term capital gain (loss): a Total for year ▶	1,925	Sch. D, line 10, col. f. or g.
	b From sales or exchanges after 6/9/81	1,000	See Sch. D, Part IV
	7 Net gain (loss) from involuntary conversions due to casualty or theft:		
	a Total for year ▶		Form 4684, line 20
	b From casualties or thefts after 6/9/81		Form 4684, line 20
	8 Other net gain (loss) under section 1231:		
	a Total for year ▶	2,504	Form 4797, line 1
	b From sales or exchanges after 6/9/81	2,445	Form 4797, line 1
	9 Other (attach schedule)		(Enter on applicable lines of your return)
Deductions	10 Charitable contributions: 50% 180, 30% ...., 20%	180	See instructions for Sch. A
	11a Payments for partner to an IRA		Form 1040, line 24
	b Payments for partner to a Keogh Plan (Type of plan ▶ ....)		Form 1040, line 25
	c Payments for partner to Simplified Employee Pension (SEP)		Form 1040, line 25
	12 Other (attach schedule)		(Enter on applicable lines of your return)
Credits	13 Jobs credit		Form 5884
	14 Credit for alcohol used as fuel		Form 6478
	15 Other (attach schedule)		(Enter on applicable lines of your return)
Other	16a Gross farming or fishing income		Sch. E, Part IV
	b Net earnings (loss) from self-employment	3,755	Sch. SE, Part I or II
	c Other (attach schedule)		(Enter on applicable lines of your return)
Specially Allocated Items	17a Short-term capital gain (loss) (attach schedule):		
	(1) Total for year ▶		Sch. D, line 3, col. f. or g.
	(2) From sales or exchanges after 6/9/81		See Sch. D, Part IV
	b Long-term capital gain (loss) (attach schedule):		
	(1) Total for year ▶		Sch. D, line 10, col. f. or g.
	(2) From sales or exchanges after 6/9/81		See Sch. D, Part IV
	c Ordinary gain (loss) (attach schedule)		Form 4797, line 9
	d Other (attach schedule)		Sch. E, Part II

For Paperwork Reduction Act Notice, see page 1 of Form 1065 Instructions.

343-094-8

Tax Preference Items	18a Accelerated depreciation on real property:		
	(1) Low-income rental housing (167(k))		Form 4625, line 1(a)(1)
	(2) Other nonrecovery real property and 15-year real property		Form 4625, line 1(a)(2)
	b Accelerated depreciation on leased property that is personal property or recovery property other than 15-year real property		Form 4625, line 1(b)
	Amortization: c ____, d ____, e ____, f ____		Form 4625, lines 1(c) thru (f)
	g Reserves for losses on bad debts of financial institutions		Form 4625, line 1(g)
	h Depletion (other than oil and gas)		Form 4625, line 1(i)
	i (1) Excess intangible drilling costs from oil, gas, or geothermal wells		See Form 4625 instr.
	(2) Net income from oil, gas, or geothermal wells		
Investment Interest	19a Investment interest expense:		
	(1) Indebtedness incurred before 12/17/69		Form 4952, line 1
	(2) Indebtedness incurred before 9/11/75, but after 12/16/69		Form 4952, line 15
	(3) Indebtedness incurred after 9/10/75		Form 4952, line 5
	b Net investment income (loss)	78	Form 4952, line 2 or 10a
	c Excess expenses from "net lease property"		Form 4952, lines 11 and 19
	d Excess of net long-term capital gain over net short-term capital loss from investment property	1,545	Form 4952, line 20
Foreign Taxes	20a Type of income ____		Form 1116, Checkboxes
	b Name of foreign country or U.S. possession ____		Form 1116, Part I
	c Total gross income from sources outside the U.S. (attach schedule)		Form 1116, Part I
	d Total applicable deductions and losses (attach schedule)		Form 1116, Part I
	e Total foreign taxes (check one): ☐ Paid ☐ Accrued		Form 1116, Part II
	f Reduction in taxes available for credit (attach schedule)		Form 1116 instr.
	g Other (attach schedule)		Form 1116 instr.
Property Eligible for Investment Credit	21 Unadjusted basis of new recovery property: (a) 3-Year	4,300	Form 3468, line 1(a)
	(b) Other		Form 3468, line 1(b)
	Unadjusted basis of used recovery property: (c) 3-Year		Form 3468, line 1(c)
	(d) Other.		Form 3468, line 1(d)
	Basis of new nonrecovery investment property: (e) 3 or more but less than 5 years		Form 3468, line 3(a)
	(f) 5 or more but less than 7 years		Form 3468, line 3(b)
	(g) 7 or more years		Form 3468, line 3(c)
	Cost of used nonrecovery investment property: (h) 3 or more but less than 5 years		Form 3468, line 3(d)
	(i) 5 or more but less than 7 years		Form 3468, line 3(e)
	(j) 7 or more years		Form 3468, line 3(f)
	New commuter highway vehicle		Form 3468, line 5
	Used commuter highway vehicle		Form 3468, line 6
	Qualified rehabilitation expenditures (Enter on Form 3468, line)		

Property Subject to Recapture of Investment Credit	22 Properties:	A	B	C	
	a Description of property (state whether recovery or nonrecovery property)	MACHINE (NONRECOVERY)			Form 4255, top
	b Original rate	10%			Form 4255, line 1
	c Date placed in service	1/1/76			Form 4255, line 2
	d Cost or other basis	$6,210			Form 4255, line 3
	e Class of recovery property or original estimated useful life	8 YEARS			Form 4255, line 4
	f Applicable percentage	100%			Form 4255, line 5
	g Date item ceased to be investment credit property	6/3/81			Form 4255, line 8
	h Period actually used	5 YEARS			Form 4255, line 9

343–094–1

EXAMPLE OF TRUST K-1

SCHEDULE K-1
(Form 1041)
Department of the Treasury
Internal Revenue Service

Beneficiary's Share of Income, Deductions, Credits, etc.—1981
for the calendar year 1981, or fiscal year
beginning ...., 1981, ending ...., 19....
(Complete for each beneficiary)

OMB No. 1545-0092
Copy A
File with Form 1041

Name of estate or trust ▶ Trust U/W of Thomas Hart

Beneficiary's identifying number ▶ 107-19-3694

Estate or trust's employer identification number ▶ 22-6066731

Beneficiary's name, address, and ZIP code

Stuart Hart
67 Arbor Terrace
New York, N.Y. 10017

Fiduciary's name, address, and ZIP code

John D. Jenkins, Trustee
36 Danbury Road
Hartford, Conn. 06102

a. Allocable share item	b. Amount	c. Form 1040 filers enter column b amounts as indicated below
1 Dividends (amount before exclusion)	4,278	Schedule B, Part II, line 3
2 (a) Interest qualifying for exclusion under section 116	5,504	Schedule B, Part I, line 1a
(b) Qualifying interest from All Savers Certificates		Schedule B, Part I, line 1c
3 (a) Net short-term capital gain or (loss) for year		Schedule D, line 3, column f or g
(b) Net short-term capital gain or (loss) after 6–9–81		See Schedule D, Part IV
(c) Net long-term capital gain or (loss) for year		Schedule D, line 10, column f or g
(d) Net long-term capital gain or (loss) after 6–9–81		See Schedule D, Part IV
4 Other taxable income (itemize):		
(a) (1) Rent	3,437	
(2)		
(b) Total of lines 4(a)(1) and (2)	3,437	
(c) Depreciation (including cost recovery) and depletion	1,246	
(d) Amortization deductions (itemize):		
(1)		
(2)		
(e) Total of lines 4(c), 4(d)(1) and 4(d)(2)	1,246	
(f) Line 4(b) minus line 4(e)	2,191	Schedule E, Part II
5 Estate tax deduction (Attach computation.)		Schedule A, line 31
6 Excess deductions on termination (Attach computation.)		Schedule A, line 31
7 Tax preference items:		
(a) Accelerated depreciation on:		
(1) Low-income rental housing (167(k))		Form 4625, line 1(a)(1)
(2) Other real property (see instructions)		Form 4625, line 1(a)(2)
(3) Personal property subject to a lease (see instructions)		Form 4625, line 1(b)
(b) Depletion		Form 4625, line 1(i)
(c) Other (itemize):		
(1)		Enter on applicable line of Form 4625
(2)		Enter on applicable line of Form 4625
8 Foreign taxes (List on a separate sheet.)		Form 1116 or Schedule A (Form 1040), line 15
9 Property eligible for investment credit:		
Unadjusted basis of new recovery property — 3-year		Form 3468, line 1(a)
Unadjusted basis of new recovery property — Other		Form 3468, line 1(b)
Unadjusted basis of used recovery property — 3-year		Form 3468, line 1(c)
Unadjusted basis of used recovery property — Other		Form 3468, line 1(d)
Basis of new nonrecovery investment property — 3 or more but less than 5 years		Form 3468, line 3(a)
Basis of new nonrecovery investment property — 5 or more but less than 7 years		Form 3468, line 3(b)
Basis of new nonrecovery investment property — 7 or more years		Form 3468, line 3(c)
Cost of used nonrecovery investment property — 3 or more but less than 5 years		Form 3468, line 3(d)
Cost of used nonrecovery investment property — 5 or more but less than 7 years		Form 3468, line 3(e)
Cost of used nonrecovery investment property — 7 or more years		Form 3468, line 3(f)
10 Other (itemize): (a)		(Enter on applicable line of appropriate tax form)
(b)		
(c)		
(d)		

Your income from a fiscal year estate or trust must be included in your tax year during which the fiscal year of the estate or trust ends.

For Privacy Act and Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1041.

343-087-1

SESSION 12

PROFIT & LOSS FROM BUSINESS (SCHEDULE C)
FARM (SCHEDULE F) SELF EMPLOYMENT (SCHEDULE SE)

Reading Assignment: Publication 225, Ch. 1-5;8;15;17
Publication 334, Parts 1-4; Ch. 27,33

A. VOCABULARY

Hobby income

Accounting Methods:
Accrual Basis
Cash Basis

Net operating loss

Inventory

Self-employment

Gross profit

B. INTERVIEW TECHNIQUES

1. Before you start the interview tell your client you would like to take a few minutes to review the prior year return. At this pint, flip through the return, note types of farm income in prior year, livestock purchased for resale, wheat, mint, ASCS payment, state gas tax refund, federal gas tax credit, etc. As you do so make any special notations that you don't want to miss in the event you are distracted or interrupted during the course of the interview.

   In the expense section, specifically make notations of percentage of taxes, interest, related to farm. Compute by:

$$\frac{\text{value of farm property}}{\text{total value of farm/including personal dwelling, etc.}}$$

2. Interview Questions:
   - a. The cattle you sold, were they raised? Or were they purchased? If they were pruchased, what was the cost? Had you previously listed these cattle on your depreciation schedule? Or were you holding them for resale?
   - b. Go down each item on the farm schedule and make sure you have not missed any source of farm income.

c. **When you get to the federal gasoline tax credit.** IMMEDIATELY look back at client's prior year return to see how much the 4136 credit was tha reduced income tax that year.

d. State Gasoline Tax Refund: ask if they applied for and received the state gasoline tax refund. If they do not know what you are talking about, you owe it to your client to make them aware of it. As a client courtesy, refer them to Oregon State Form 1200 (Fuels Tax Refund Claim).

e. Did you receive any insurance claim reimbursement for any farm loss or sell or trade any farm operating supplies to neighbor, bailing wire, sacks, etc., that you have not included? (stress bartering income).

f. Review the farm expenses with them; ask them for expenses that ONLY relate to farm maintenance and repairs.

g. Were you making payments on a vehicle that is only used partially for farm business? INTERVIEWERS: Be certain not to miss this deduction. With the zero bracket, they may not have enough to itemize the $350 they paid to MAC for pickup interest, but the 60% of the pickup that was farm-use-related be included as an interest expense on the farm schedule.

h. Depreciation: AGAIN FLIP BACK TO THE PRIOR YEAR RETURN. If that schedule is lengthy and you hav a copy machine available; run a photocopy of t schedule so you can write notes as to changes: items sold, traded, junked; date of transaction and monetary value received.

i. If this is a new farm you must or should also ask if they have converted any small tools or equipment to farm use that were not expensed on a prior year return. NOTE: Use cost or FAIR MARKET VALUE, whichever is the LESSER for the schedule. THIS IS NOT ELIGIBLE FOR INVESTMENT CREDIT.

j. How many gallons of non-highway gasoline did you use last year? Tractors, combines, pickups used in the field?

k. How much lubricating oil, non-highway use gallons?

l. Did you purchase any equipment, breeding stock or buildings? Use this information for depreciation schedule or possible investment credit.
    1. Certain buildings and structural components DO qualify for investment credit.
    2. Certain storage facilities, unitary systems for raising hogs, automatic feed systems, special air-flow units, slanted flooring, pens and partitions qualify for investment credit.

Note: The questions above have been directed to a farm business. Each business will have its own related question

Form **4136**

Department of the Treasury
Internal Revenue Service (0)

Computation of Credit for Federal Tax on Gasoline, Special Fuels, and Lubricating Oil

▶ Attach this form to your income tax return.

OMB No. 1545–0162

1981
28

Name (as shown on your income tax return)

Social security or employer identification number

Part I

	Gasoline, Diesel Fuel and Special Motor Fuels			Lubricating Oil		
Type of Business Use	Number of Gallons Used (A)	Rate of Tax (B)	Multiply Column (A) by Column (B) (C)	Number of Gallons Used (D)	Rate of Tax (E)	Multiply Column (D) by Column (E) (F)
1 Nonhighway:	▨	▨	▨	▨	▨	▨
a Farm (for farming purposes)		.02 .04 }*	$ ▨		.06	$
b Commercial fishing vessel (See instructions C.4. and D.2.(c)):						
(i) Gasoline		.02				
(ii) Diesel fuel or special fuels		.02 .04 }*	 ▨		.06	
c Other (specify)		.02 .04 }*	 ▨		.06	
2 Intercity, local, and school buses (See instruction C.3.)		.02 .04 }*	 ▨		.06	
3 Gasoline/alcohol mixture		.04		▨	▨	▨
4 Aircraft			▨		.06	
5 Totals			$	▨	▨	$

Part II

	Aviation Gasoline		
Type of Business Use	Number of Gallons Used (A)	Rate of Tax (B)	Multiply Column (A) by Column (B) (C)
6 a Farm (for farming purposes) (Aerial applicators see instruction C.1.)		.04	$
b Aviation (applies only to commercial use as defined in instruction C.6.)		.04	
7 Total			$
8 Total income tax credit claimed. (Add line 5, columns (C) and (F) and line 7, column (C).) (See instruction B.)			$

* **Use rate paid or allowable rate if lesser**

Instructions

(Section references are to the Internal Revenue Code unless otherwise specified)

> At the time we printed this form, Congress was considering a proposal that could change the credit computation for aviation fuel listed on the form. If the proposal becomes law and applies to 1981, it must be considered in figuring your credit for 1981. We will use news media and other means available to provide you with information and instructions on any change.

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Refund Instead of Credit.—If you paid excise tax of at least $1,000 ($200 for gasoline/alcohol mixture) on any fuel category or lubricating oil in any one of the first three quarters of the tax year, you may file for a refund of the tax instead of claiming a credit for it on Form 4136. To claim the refund, file Form 843, Claim, before the end of the quarter following the one for which you are claiming the refund. Show separate computations for a claim on gasoline, special fuels, and lubricating oils. You may use Form 4136 as a worksheet to show your computations and attach it to the Form 843 you file.

You must claim a credit, rather than a refund, for any tax paid during the fourth quarter, and for any tax under $1,000 ($200 for gasoline/alcohol mixture) for any of the first three quarters. You must also claim the credit, rather than a refund, for tax paid on gasoline or special fuels used on a farm for farming purposes.

Do not claim as a credit on Form 4136 any amount that you previously claimed as a refund.

A. Purpose of Form 4136.—You must file this form if you claim credit for Federal excise tax on certain kinds of fuel. These include gasoline, special fuels, and lubricating oil as defined in instructions C, D, and E.

An individual, estate, trust, or corporation may file this form, but a partnership may not. However, when a partnership files Form 1065, U.S. Partnership Return of Income, it must include a statement showing:

- How many gallons of the fuels are allocated to each partner.
- The types of use, as shown in this form.

B. Year to Include the Credit Resulting from Business Use of Fuel or Oil.—When you claim a credit or refund, you must in-

(Continued on back)

clude it in your gross income to the extent it resulted in a reduction of your income tax. The year in which you include it depends upon your method of accounting.

1. Cash Method.—If you use the cash method, include the amount of credit in gross income for the tax year in which you file the tax return that claims the credit. If you file an amended return, or if you file a claim for credit or refund (and claim the credit for the tax), include the refund that results from the credit in your gross income for the tax year you receive it.

2. Accrual Method.—If you use the accrual method, figure the amount of the credit or refund due at the close of your tax year. Include it in income, even if you have not filed a claim for refund.

C. What Gasoline to Include.—You may claim credit for Federal excise tax on gasoline for farm uses, business nonhighway uses, intercity, local, and school bus uses, commercial fishing vessel uses, commercial aviation uses, and for mixing with alcohol.

1. Farm Use.—You may claim a credit for gasoline used for farming on a trade or business farm in the United States. Such farms include the following:

- Stock, dairy, poultry, fur-bearing animal, and truck farms.
- Plantations, ranches, nurseries, ranges, and greenhouses.
- Orchards.

Gasoline is considered used for farming only if the owner, tenant, or operator of the farm uses the gasoline. If gasoline is used for the farming tasks set forth below by anyone else, the owner, tenant, or operator is considered the user of the gasoline. There is an exception to this rule. An aerial applicator is considered to have used gasoline for farming when performing the farming tasks under the following conditions:

- The applicator is the ultimate purchaser of the gasoline; and
- The farm owner, tenant, or operator agrees not to be treated as the user and ultimate purchaser of the gasoline.

The following tasks are considered farming:

(a) Cultivating the soil, and raising or harvesting any horticultural or agricultural commodity. This includes raising livestock, bees, poultry, fur-bearing animals, and wildlife.
(b) Handling, drying, packing, grading, or storing any horticultural or agricultural commodity before manufacture, but only if the owner, tenant, or operator produced more than half of the commodity treated.
(c) Planting, cultivating, or cutting trees, or preparing them for market. This does not include milling the lumber.
(d) Operating, managing, conserving, improving, or maintaining the farm and its tools and equipment.

Gasoline is not considered used by you for farming under the following conditions:

(a) It is used off the farm to transport livestock, feed, crops, or equipment.
(b) It is used in processing, packaging, freezing, or canning operations.
(c) It is used for personal purposes.
(d) It is used on the farm of another person, even though used for farming.

Often a vehicle will be used on the farm both for farming and for nonfarming purposes. In these cases, show the number of gallons of gasoline used for each purpose when claiming credit.

2. Business Nonhighway Uses.—You may claim a credit of 2 cents a gallon for gasoline used for business nonhighway purposes. Business nonhighway use does not include gasoline used in a motorboat or in a highway vehicle that either:

- Is registered or required to be registered for highway use under the laws of any State, the District of Columbia, or foreign country; or
- Is owned by the United States and is used on the highway.

3. Intercity, Local, or School Bus Uses.—If you are the ultimate purchaser of gasoline for a bus that provides transportation (1) to the general public for a fee or (2) to students and school employees, you may claim a credit for the excise tax you paid on gasoline used for this service.

If you provide transportation on intercity and local buses on non-scheduled irregular routes, you may take the credit only if the seating capacity of the bus is at least 20 adults, not including the driver.

4. Commercial Fishing Vessel Use.—You may claim a credit for excise tax paid on gasoline used in a commercial fishing vessel in the amount of 2 cents a gallon. A commercial fishing vessel is one used in the fisheries or whaling business and used:

- Exclusively for catching shrimp and other types of aquatic life for sale commercially as bait, or
- On specific trips exclusively for catching fish to be sold commercially.

5. Gasoline/alcohol Mixture.—You may claim a credit for excise tax paid on gasoline mixed with alcohol. The alcohol must have been made from other than petroleum, natural gas, or coal. The mixture must have included at least 10% of 190 proof alcohol and must have been sold or used in your trade or business.

6. Commercial Aviation Use.—You may claim credit for excise tax on gasoline (but not other fuels) used in commercial aviation. For this purpose commercial aviation is the use of an aircraft in a business of carrying people or property by air for pay. The use of an aircraft may be considered noncommercial aviation if the aircraft:

(1) Has a maximum certificated takeoff weight of 6,000 pounds or less and is not operated on an established line; or
(2) Is owned or leased by a member of an affiliated group and is not available for hire to nonmembers.

D. What Special Fuels to Include.—

1. Definitions of Special Fuels.—

(a) Diesel Fuel.—This fuel is a liquid that is:

(1) Sold for use in a diesel-powered highway vehicle; or
(2) Used for fuel in such a highway vehicle. (This use is not taxable if there was a taxable sale of the fuel under (1) above.)

(b) Special Motor Fuels.—These fuels include benzol, benzene, naphtha, liquefied petroleum gas, casinghead and natural gasoline and other liquid except kerosene, gas oil, fuel oil, diesel fuel, or any product taxable under section 4081. Special motor fuels must be:

(1) Sold for use as a fuel in a motor vehicle or motorboat; or
(2) Used for fuel in a motor vehicle or motorboat. (This use is not taxable if there was a taxable sale of the fuel under (1) above.)

2. Uses of Special Fuels.—

(a) Farm Use.—You may claim credit for Federal excise tax on fuels as defined in D.1. See instruction C.1. for requirements for "farm use."

(b) Intercity, Local, and School Bus Uses.—You may claim credit for Federal excise tax on fuels as defined in D.1. See instruction C.3. for intercity, local, and school bus requirements.

(c) Commercial Fishing Vessel Use.—You may claim a credit for Federal excise tax on fuels as defined in D.1. of 2¢ or 4¢, whichever paid, that were used in vessels while employed in the fisheries or whaling business. See instruction C.4.

(d) Nontaxable Uses.—

(1) Diesel and Special Motor Fuel.—These fuels (defined in D.1.) may qualify for a credit in any of the following cases:

- You resold the fuel.
- You used the fuel for a nontaxable purpose.
- You used the fuel for a purpose that was not the one you bought it for. This other purpose must make a lower tax rate apply.

If any of these three conditions exist, claim as credit the figure you get by subtracting (a) the tax that applies to the *actual* use of the fuel, from (b) the tax imposed by section 4041 on the fuel sold to you.

E. What Lubricating Oil to Include.—You may claim an income tax credit for lubricating oil that is used in qualified business use, in a qualified bus, or in a commercial fishing vessel. You may include:

- Oil to lubricate plant machinery.
- Oil to lubricate vehicles such as aircraft, bulldozers, buses, power shovels, and farm tractors.

You may not include:

- Cutting oils.
- Used oil.
- Oil used in a highway motor vehicle, such as a truck, if used for other than business nonhighway use. See instruction C.2.
- Oil sold free of the Federal excise tax on lubricating oil. Such oil includes transformer or insulating oil, some motor fuel additives, crude neat's-foot oil, castor oil, and oils purchased excise-tax-free by use of an exemption certificate.

F. What Fuels Not to Include.—Do not include gasoline lost or destroyed through spillage, accident, or shrinkage. Such gasoline is not considered to be used and therefore does not qualify for credit or refund.

G. Additional Information.—Publication 225, Farmer's Tax Guide, and Publication 378, Fuel Tax Credits—Alcohol, Nonhighway Business Equipment, Buses, and Taxicabs, are available from the Internal Revenue Service.

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Form **4835**
Department of the Treasury
Internal Revenue Service

Farm Rental Income and Expenses and Summary of Gross Income From Farming or Fishing

(Crop and Livestock Shares Received by Nonparticipating Landowner (or Sub-lessor))
(Income not subject to self-employment tax) ▶ Attach to Form 1040.

1981

Names(s) as shown on Form 1040

Social security number

Farm name and address

If you filed Form 943, enter employer identification number here

Purpose.—Use this form to report farm rental income based on crops or livestock produced by the tenant if you were the landowner (or sub-lessor), and did not materially participate in the operation or management of the farm.

Under both the cash and the accrual methods of reporting, you must report livestock or crop share rentals received in the year in which you convert them into money or its equivalent.

Landowners (or sub-lessors) must not use this form to report cash rent received for pasture, or farmland, if the amount is based on a flat charge. Report this income directly on Schedule E (Form 1040).

If you report both farm rental income on line 24 of this form and cash rental income from farm property in Schedule E (Form 1040), you do not have to prorate the farm expenses that apply to this farm rental income. Instead, you may report the total farm rental expenses in Part II of this form.

Tenants must not use this form to report farm income and expenses. (Individuals use Schedule F (Form 1040).)

Line-by-line instructions for completing this form can be found on the back. For more details, see the Instructions for Schedule F (Form 1040).

Note: Fill in Part IV to see if you were required to file Form 1040–ES and make estimated tax payments.

Part I Gross Farm Rental Income—Based on Production
(Include amount converted to cash or the equivalent)

Kind		Amount
1 Cattle and calves		
2 Sheep		
3 Swine		
4 Poultry		
5 Dairy products		
6 Eggs		
7 Wool		
8 Cotton		
9 Tobacco		
10 Vegetables		
11 Soybeans		
[illegible] Corn		
13 Other grains		
14 Hay and straw		
15 Fruits and nuts		
16 a Patronage dividends		▨
b Less: Nonincome items		▨
c Net patronage dividends		
17 Per-unit retains		
18 Agricultural program payments:		
a Cash		
b Materials and services		
19 Commodity credit loans under election (or forfeited)		
20 Federal gasoline tax credit		
21 State gasoline tax refund		
22 Crop insurance proceeds		
23 Other (specify):		
24 Gross farm rents (add lines 1 through 23) ▶		

Part II Deductions—Farm Rental Property
(Exclude personal and living expenses)

Items		Amount
25 a Labor hired (see Schedule F Instructions)		
b Jobs credit		▨
c WIN credit		▨
d Total credits		
e Subtract line 25d from line 25a		
26 Repairs, maintenance		
27 Interest		
28 Rent of farm, pasture		
29 Feed purchased		
30 Seeds, plants purchased		
31 Fertilizers, lime, chemicals		
32 Machine hire		
33 Supplies purchased		
34 Breeding fees		
35 Veterinary fees, medicine		
36 Gasoline, fuel oil		
37 Storage, warehousing		
38 Taxes		
39 Insurance		
40 Utilities		
41 Freight, trucking		
42 Conservation expenses		
43 Land clearing expenses		
44 Pension and profit-sharing plans (see Schedule F Instructions)		
45 Employee benefit programs other than line 44 (see Schedule F Instructions)		
46 Other (specify):		
47 Add lines 25e through 46		
48 Depreciation (see Instructions)		
49 Total deductions (add lines 47 and 48) ▶		

[illegible]0 Net farm rental profit or (loss) (subtract line 49 from line 24). If a profit, enter here and on Schedule E (Form 1040), Part I, line 24. If a loss, go on to line 51 before you enter the loss here and on Schedule E (Form 1040)

51 If you have a loss, do you have amounts for which you are not "at risk" in this farm (see Instructions for Schedule F)? ☐ Yes ☐ No

If you checked "No," enter the loss on Schedule E, Part I, line 24

For Paperwork Reduction Act Notice, see page 2 of Form 4835.

Part III Depreciation (Do not include your home, its furnishings, and other personal items.) Complete this part if you claim depreciation ONLY for assets placed in service before January 1, 1981. If you need more space, use Form 4562. If you claim a deduction for any assets placed in service after December 31, 1980, use Form 4562 for all assets; do NOT complete this part.

a. Description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of figuring depreciation	f. Life or rate	g. Depreciation for this year
52 Depreciation (see Instructions):	▨	▨	▨	▨	▨	▨
53 Totals			Enter total of column g on page 1, line 48 . . . . ▶			

Part IV **Gross Income From Farming or Fishing—**

When to Use: Complete this part to see if two-thirds of your gross income is from farming or fishing for 1980 or 1981.

Enter your share of income from the sources below for either 1980 or 1981. If the total is at least two-thirds of your gross income, the penalty for failure to pay estimated tax will not apply if you file your tax return, and pay the tax due, by March 1, 1982.

Source(s)	Your share of gross farming or fishing income
54 Estate(s) and trust(s) (enter only the pro rata share of your distributable net taxable income that is from farming or fishing) . . .	
55 Farming (Schedule F, Form 1040)	
56 Fishing (Schedule C, Form 1040)	
57 Gross farm rents from Part I, line 24	
58 Partnership(s)	
59 Sale of livestock held for draft, breeding, sport or dairy purposes (Form 4797)	
60 Total (add lines 54 through 59)	

Line-by-Line Instructions

Paperwork Reduction Act Notice—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

PART I.—Gross Farm Rental Income—Based on Production

Lines 1 through 15

For each kind of livestock and crop, report income you received based on production. Include amounts converted to cash or the equivalent.

Line 16

Patronage dividends are profits from a farming co-op. See Schedule F Instructions.

Line 17

Per-unit retains are amounts held for you by a farming co-op. See Schedule F Instructions.

Lines 18 through 23

Include agricultural program payments, certain loans, credits and refunds, and other payments.

PART II.—Deductions—Farm Rental Property

Lines 25 through 46

Report expenses listed. Do not include personal and living expenses.

PART III.—Schedule for Depreciation Claimed on Farm Rental Property

You can deduct a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business, or property held for the production of income. The allowance does not apply to stock in trade, inventories, land, and personal assets.

Do not include in this schedule any depreciation on property you and your family lived in, its furnishings, and other items used for personal purposes.

Line 52

Complete this part ONLY if you claim depreciation of assets placed in service before January 1, 1981. For each kind of asset fill in columns (b) through (g) across. If you need more space, use Form 4562, Depreciation.

However, if you placed any assets in service after December 31, 1980, use Form 4562 to figure your deduction for all assets. Enter the amount from Form 4562 on line 48 of Form 4835.

For more information, get Publication 534, Depreciation.

Line 53

Enter total from line 53, column (g), on page 1, line 48.

PART IV.—Gross Income From Farming or Fishing

Fill in Part IV to see if two-thirds of your gross income in 1980 or 1981 is from farming or fishing. For more information, get Publication 225, Farmer's Tax Guide.

ASSIGNED PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

Session 12

Profit and Loss from Business, Farm and Self Employment

1. Compute the credit on Form 4136 for the following items. (Circle the correct answer).

   A. Pickup truck, used 60% on the farm for feeding and caring for livestock and 40% off the farm for farm business. Total gallons of gasoline used for the truck was 400.

   $6.40 $9.60 $16.00

   B. 600 gallons of gasoline in an outomobile used by the farmer for non-farm purposes.

   $24.00 $12.00 -0-

   C. 80 gallons of gasoline used for pleasure motorboat.

   $5.60 $3.20 $1.60 -0-

   D. 700 gallons of gasoline used on the farm for generators and forklift truck.

   $28.00 $14.00 $49.00

2. Don agrees to produce a crop on Carl's cotton farm with each getting one-half of the proceeds. Carl agrees to furnish all the necessary equipment and to advise Don when to plant the cotton and when it needs to be chopped, plowed,sprayed,and picked. During the growing season Carl inspects the crop every week to determine whether Don is properly taking care of the crop. Don furnishes all labor needed to grow and harvest the crop. Should the income Carl receives from his cotton farm be included in computing his net earnings from self-employment? Give reason.

3. Curt owns a fully-equipped farm which he rents to Vic. Curt lives in town about 5 miles from the farm. About twice a month he drives to his farm and looks over the buildings and equipment. Curt occasionally, in an emergency, discusses with Vic some phase of a crop production activity. Vic has complete charge of the farming operations although Curt pays one-half of the cost of the seed and fertilizer. Vic makes all necessary repairs and charges Curt for the cost of the purchased materials. Should the income Curt receives from crop production be included in his net earnings from self-employment? Give reason.

4. Ralph Brick, a cash basis calendar-year farmer purchased feed in December to be consumed by his livestock the following year. This was not his usual custom, but because of severe weather conditions, feed was expected to be in short supply the following year and prices much higher. Would the cost of the feed be deductible in the year purchased?

5. Bob Brown cleared land, at a cost of $10,000 to make it suitable for farming. His taxable income from farming for the year was $25,000.
   a) How much of this expense is deductible?
   b) What amount would be deductible if his income had been $12,000?

6. In the following examples, state whether the expense incurred is a capital expenditure or a business expense:
   a) The Apply Company had a new roof put on its warehouse in July.
   b) In August, the drainage system in the same warehouse became clogged. The Dig-it-Out Company was called in to unclog the drain.

7. What is the difference between gross profit and gross income from a business?

8. What is business net profit?

9. Briefly state the difference between capital and capital assets.

10. What is the difference between a capital asset held for investment and property held in inventory?

11. How is cost of goods sold and/or operations figured?

12. Determine the allowable business deductions in the following problem. Calculate total deductions allowable. Jerry's Novelty Shop incurred the following expenses in 1981:

Depreciation on furniture and fixtures purchased July 1, 1981; for $2,500. ACRS

Rent.	$1,200.00
Clerk's salary.	12,500.00
Property tax on furniture & fixtures.	126.00
Business privilege tax.	25.00
Social security taxes (employer's half).	766.25
Fire, theft, and liability insurance.	150.00
Unemployment taxes.	204.00
Heat and light.	1,420.00
Advertising.	240.00
Telephone.	275.00
Postage.	62.75
Trash pick-up.	60.00

13. Determine the allowable Schedule C deductions in the following problem. Calculate total amount of deductions allowable.

Herman Carpenter, Attorney at Law, had the following expenses: Depreciation on furniture and fixtures purchased January 2, 1981, for $3,500; and on office equipment, including a typewriter and file cabinets, also purchased on January 2,1981 for $975. ACRS

Secretary's wages.	$8,000.00
Social security taxes (employer's share).	490.40
Unemployment taxes.	204.00
Rent.	3,400.00
Telephone.	450.75
Postage.	126.75
1% city income tax on gross income.	350.00
Stationery & supplies.	300.00
Bar Asso. membership fee.	250.00
Law periodicals.	350.00
Fire, theft, & liability insurance.	300.00

SITUATION 1:

Based on the following information, prepare page 1 o Schedule F for Tom Summers, a cash basis calendar-year taxpayer. Tom owns and operates a farm known as Summer's Farm, Rt. #1, Paris, Kentucky 40361. Tom's social security number is 987-65-4320 and his employer identification number is 32-0437620.

Farm income	Amount Received
400 bu. of corn.	$1,000
Machine work.	500
Federal gas tax credit. . . .	50
5,850 CWT of milk.	67,275
8 calves.	800
15 steers bought for resale (cost,$10,000). . . .	13,500
Patronage dividend.	705
Groceries in exchange for produce.	150
Prize money cow won for 2nd place county fair.	200
Check for agricultural program payment.	4,200

Farm Expenses	Amount Paid
Labor hired-98% farm-2% personal. .	$12,500
Repairs, Maintenance-98% farm-2% personal.	3,500
Interest-75% farm-25% personal. . .	12,000
Rent for use of land-$1500 cash $500 value of crop shares.	2,000
Feed purchased.	13,000
Seed purchased.	1,500
Fertilizer-lime.	4,500
Supplies purchased.	2,000
Breeding fees.	900
Veterinary expenses.	760
Gasoline, fuel oil-75% farm, 25% personal.	3,972
Frank's share of social security on agricultural labor.	751
Insurance-75% farm, 25% personal . .	1,500
Utilities-75% farm, 25% personal. . .	2,800
Hauling steers from farm to market. .	200
Soil or water conservation (adopted policy of deducting expenditures). .	1,790
Farm organization dues.	175
Depreciation-total for year.	6,400
Taxes, 75% farm, 25% personal	2,340

SITUATION 2

Complete Schedule C using the following facts:

Tobin Green lives at 7165 Auto Drive, Franklin, NY, 18725. Tobin operates a travel agency. He is self-employed and has an office at 744 Dogwood Avenue, West, New York, 18369, doing business as Toby's Travel Service. Tobin seeks your assistance in preparing his 1981 income tax return. He tells you:

a) This is his 3rd year in this business.
b) He maintains no inventories.
c) He is a calendar-year taxpayer and has elected to report on the cash basis.
d) He has two full-time employees each earning $10,200 per year, and has been assigned employer identification number 32-7654321. His social security number is 123-65-6789.
e) He had cash receipts for the year of $42,170.08.
f) He earned commissions in 1980 of $800 that he received in 1981. These are included in the $29,500 cash receipts.
g) He has accounts receivable of $1,100, but he never expects to collect $500 of it.

The footings in the cash disbursements journal are as follows:

Social security taxes (employer's half). . . .	1,250.52
Employee's salaries	20,400.00
Workmen's compensation.	95.20
Rent.	1,200.00
Repairs on office equipment.	80.00
Repairs on office furniture.	45.00
Electrical repairs.	47.00
Life insurance on Mr. Green's life.	212.00
Interest on office furniture & equipment. . . .	365.00
Auto repairs, business.	180.00
Gas & oil for business auto.	320.00
Telephone.	920.00
Stationery & supplies.	2,160.00
Advertising.	2,180.00
Auto insurance, business.	432.40
Refunds to clients.	300.00
Postage.	2,440.00
Unemployment taxes.	408.00
Heat & light.	1,000.00

A copy of the depreciation schedule for 1980 follows. No additional equipment was purchased nor were there any dispositions in 1980 and 1981. There is no expense account information involved. Answers to these questions will be "no". See next page.

SCHEDULE C–2.—Depreciation (See Schedule C Instructions for line 13)

If you need more space, please use Form 4562.

Description of property (a)	Date acquired (b)	Cost or other basis (c)	Depreciation allowed or allowable in prior years (d)	Method of computing depreciation (e)	Life or rate (f)		Depreciation for this year (g)	
1 Total additional first-year depreciation (do not include in items below) (see instructions for limitation) →								
2 Other depreciation:								
Furniture & fixtures	1/3/79	10,000.00	1,000.00	SL	10 yr.		1,000	00
Automobile	1/3/79	4,800.00	1,200.00	SL	4 yr.		1,200	00
3 Totals		14,800.00				3	2,200	00
4 Depreciation claimed in Schedule C–1						4	-0-	
5 Balance (subtract line 4 from line 3). Enter here and on Part II, line 13 ▶						5	2,200	00

SITUATION 3

a) Harry Martin had the following income for 1980:

Net operating profit from business. . . .	$4,600
Dividends. . . .	500
Interest from savings. . . .	350

Complete Part II of Schedule SE

b) Larry Haines had net profit of $8,000 from his retail clothing store. Included in this income is $800 in rentals he received from a lease of a corner of the store to Mary Adams for her yarn shop. He performs no services as part of the lease agreement. Using this information, complete Part II of Schedule SE.

c) Harold Bane had gross farm profits of $2,100 and net earnings of $300.
   1) Under the optional method, on what amount would he be entitled to figure self-employment tax?
   2) What is the amount that would be subject to self-employment tax?

d) For 1981 Ed Moore had gross farm profits of $2,850. He had net farm profits of $1,300. He chooses to use the optional method of figuring self-employment tax. Complete Part I of Schedule SE.

e) Joe Grant had a net profit from farming of $8,000. He also had a loss from a farm partnership of $6,000. Complete Part I of Schedule SE.

f) Tom Brown had a business net profit of $8,565 in 1981. What is his self-employment tax? Complete Schedule SE.

g) Marjorie Ami had net earnings from self-employment for 1981 as follows:

Business income. . . .	$10,800
Joint-venture income. . . .	3,500
Director's fees (not exempt). . . .	500

What is her self-employment tax? Complete Schedule SE.

h) Helen Stone had income from the following sources:

Wages subject to FICA. . . .	$5,500
Farm partnership. . . .	2,000
Dividends. . . .	750
Interest. . . .	300

What is her self-employment income and how much is her self-employment tax? Complete Schedule SE.

SESSION 13
CREDITS

Reading Assignment: Publication 17, Ch. 34;35;36
Publication 225, Ch. 7
Publication 334, Ch. 31;32

A. VOCABULARY

Child and dependent care
Credits
Energy saving components
Foreign Tax Credit
Gainful employment
Incapable of self-care
Investment credit
Investment credit recapture
Maintenance expenses
Political contributions
Qualifying individuals
Relatives
Renewable engergy soources
Retirement income
Targeted jobs credit
Tax credit for the elderly
WIN credit

B. INTERVIEW QUESTIONS

1. Do you (or your spouse) receive social security?
2. Do you have Medicare (B) withheld from your social security?
3. Do you recieve pensions or annuities?
4. Is your dependent under age 15, or over 15 and incapacitated?
5. Were child care expenses incurred during the time you and your spouse were gainfully employed?
6. Was your spouse a student during the year?
7. Were child care expenses incurred in your own home?
8. If yes, did you pay $50 or more in a quarter?
9. Did you file Form 942?
10. Did you make any political contributions?
11. Did you have any weatherization expenses?
12. Did you purchase equipment, machinery or livestock for business use?
13. Did you install any energy saving devices?

Form **2441**
Department of the Treasury
Internal Revenue Service (0)

Credit for Child and Dependent Care Expenses

▶ Attach to Form 1040.
▶ See instructions below.

OMB No. 1545-0068
1981
26

Name(s) as shown on Form 1040	Your social security number

1 See the definition for "qualifying person" in the instructions. Then read the instructions for line 1.

(a) Name of qualifying person	(b) Date of birth	(c) Relationship	(d) During 1981, the person lived with you for: Months	Days

2 Persons or organizations who cared for those listed on line 1. See the instructions for line 2.

(a) Name and address (If more space is needed, attach schedule)	(b) Social security number, if applicable	(c) Relationship, if any	(d) Period of care From Month—Day	To Month—Day	(e) Amount of 1981 expenses (include those not paid during the year)

To Figure Your Credit, You MUST Complete ALL Lines That Apply

3 Add the amounts in column 2(e)	3	
4 Enter $2,000 ($4,000 if you listed two or more names in line 1) or amount on line 3, whichever is less	4	
5 Earned income (wages, salaries, tips, etc.). See the instructions for line 5. An entry MUST be made on this line. (a) If unmarried at end of 1981, enter your earned income . . . . (b) If married at end of 1981, enter: (1) Your earned income . . . $ ______ Enter the lesser (2) Your spouse's earned income $ ______ of b(1) or b(2) . . ▶	5	
6 Enter the amount on line 4 or line 5, whichever is less	6	
7 Amount on line 6 paid during 1981. An entry MUST be made on this line . . . . ▶	7	
8 Child and dependent child care expenses for 1980 paid in 1981. See instructions for line 8 . . .	8	
9 Add amounts on lines 7 and 8	9	
10 Multiply line 9 by 20 percent	10	
11 Limitation: a Enter tax from Form 1040, line 37 . . . . 11a ______ b Enter total of lines 38, 39, and 41 through 43 of Form 1040 . . 11b ______		
c Subtract line 11b from line 11a (if line 11b is more than line 11a, enter zero)	11c	
12 Credit for child and dependent care expenses. Enter the smaller of line 10 or line 11c here and on Form 1040, line 40 .	12	

	Yes	No
13 If payments listed on line 2 were made to an individual, complete the following:		
(a) If you paid $50 or more in a calendar quarter to an individual, were the services performed in your home?		
(b) If "Yes," have you filed appropriate wage tax returns on wages for services in your home (see instructions for line 13)?		

(c) If answer to (b) is "Yes," enter your employer identification number . . . . ▶ ______

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Instructions

If you or your spouse worked or looked for work, and you spent money to care for a qualifying person, this form might save you tax.

What is the Child and Dependent Care Expenses Credit?—This is a credit you can take against your tax if you paid someone to care for your child or dependent so that you could work or look for work. You can also take the credit if you paid someone to care for your spouse. The instructions that follow list tests that must be met to take the credit. If you need more information, please get **Publication 503**, Child and Disabled Dependent Care.

For purposes of this credit, we have defined some of the terms used here. Refer to these when you read the instructions.

Definitions

A qualifying person can be:

- Any person under age 15 whom you list as a dependent. (If you are divorced, legally separated, or separated under a written agreement, please see the Child Custody Test in the instructions.)
- Your spouse who is mentally or physically not able to care for himself or herself.
- Any person not able to care for himself or herself whom you can list as a dependent, or could list as a dependent except that he or she had income of $1,000 or more.

A relative is your child, stepchild, mother, father, grandparent, brother, sister, grandchild, uncle, aunt, nephew, niece, stepmother, stepfather, stepbrother, stepsister, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, and daughter-in-law. A cousin is not a relative for purpose of this credit.

A full-time student is one who was enrolled in a school for the number of hours or classes that is considered full time. The student must have been enrolled at least 5 months during 1981.

What Are Child and Dependent Care Expenses?

These expenses are the amounts you paid for household services and care of the qualifying person.

Household Services.—These are services performed by a cook, housekeeper, governess, maid, cleaning person, babysitter, etc. The services must have been needed to care for the qualifying person as well as run the home. For example, if you paid for the services of a maid or a cook, the services must have also been for the benefit of the qualifying person.

Care of the Qualifying Person.—Care includes cost of services for the well-being and protection of the qualifying person.

(Continued on back)

Care does not include expenses for food and clothes. If you paid for care that included these items and you cannot separate their cost, take the total payment.

Example: You paid a nursery school to care for your child and the school gave the child lunch. Since you cannot separate the cost of the lunch from the cost of the care, you can take all of the amount that you paid to the school.

This example would not apply if you had school costs for a child in the first grade or above because these costs cannot be counted in figuring the credit.

You can count care provided outside your home if the care was for your dependent under age 15.

You can claim medical expenses you paid for the qualifying person if you paid them so you could work or look for work. If you itemized deductions, you may want to take all or part of these expenses on Schedule A. For example, if you can't take all of the medical expenses on Form 2441 because your costs for care have reached the limit ($2,000 or $4,000), you can take the rest of the medical expenses on Schedule A. If you show all of the medical expenses on Schedule A, you cannot take on Form 2441 that part you could not deduct on Schedule A because of the 3-percent limit.

To Take This Credit.—You must file Form 1040, not Form 1040A, and you must meet all of the tests listed below.

(1) You paid for child and dependent care so you (and your spouse if you were married) could work or look for work.

(2) One or more qualifying persons lived in your home.

(3) You (and your spouse if you were married) paid more than half the cost of keeping up your home. This cost includes rent; mortgage interest; utility charges; maintenance and repairs; property taxes and property insurance; and food costs (but not dining out).

(4) You must file a joint return if you were married. There are two exceptions to this rule. You can file a separate return if:

(a) You were legally separated; or

(b) You were living apart and:

- The qualifying person lived in your home for more than 6 months; and
- You paid more than half the cost of keeping up your home; and
- Your spouse did not live in your home during the last 6 months of your tax year.

(5) You paid someone, other than your spouse or a person for whom you could claim a dependency exemption, to care for the qualifying person.

You are allowed to pay a relative, including a grandparent, who was not your dependent. If the relative is your child, he or she must also have been 19 or over by the end of the year.

Child Custody Test.—If you were divorced, legally separated, or separated under a written agreement, your child is a qualifying person if you had custody for the longer period during 1981. The child must also have:

- Received over half of his or her support from the parents, and
- Been in the custody of one or both parents for more than half of 1981, and
- Been under 15, or physically or mentally unable to care for himself or herself.

Credit Limit.—The credit is generally 20% of the amount you paid someone to care for the qualifying person. The most you can figure the credit on is $2,000 a year for one qualifying person ($4,000 for two or more).

Line-by-Line Instructions

Line 1.—*In column (a)* list the name of each qualifying person who was cared for during 1981 so you could work or look for work. In column (b) show the date of birth of each person. In column (c) show that person's relationship to you (for example: son or daughter). In column (d) show the number of months and days each person lived in your home during 1981. Count only the times when the person was qualified.

Line 2.—*In column (a)* show the name and address of the person or organization who cared for each qualifying person. If you listed a person who was your employee and who provided the care in your home, then in column (b) enter that person's social security number. Leave column (b) blank if the person: was not your employee; was self-employed; was an employee of an organization or a partnership; or did not provide the care in your home.

In column (c) write none if the person who provided the care was not related to you. If the care was provided by a relative, show the relationship to you. See definition of relative on the front of the form.

In column (d) show the period of time each person or organization provided care.

In column (e) list the amount of your 1981 expenses including those not paid during the year.

Line 3.—Add the amounts in column 2(e) and enter the total.

Line 4.—Enter $2,000 ($4,000 if more than one person is listed on line 1) or the amount on line 3, whichever is less.

Line 5.—This line is used to figure your *earned income*. Generally, you can figure earned income using steps (a) through (c). If you are unmarried, enter your amounts from Form 1040 when they are needed for the steps below. If you are married, each spouse's earned income will have to be figured separately and without regard to community property laws.

(a) Enter one spouse's income from Form 1040, line 7 . . . ____________

(b) Enter the same spouse's net profit or (loss) from Schedule C or Schedule F (Form 1040) if applicable ____________

(c) Combine amounts on lines (a) and (b). (If the result is zero or less, enter zero.) . . . ____________

If you are unmarried, enter the amount from (c) on line 5. If you are married, enter the amount from (c) on line 5(b)(1) and go back and figure your spouse's earned income using steps (a) through (c). Enter your spouse's earned income from (c) on line 5(b)(2). Enter the lesser of line 5(b)(1) or line 5(b)(2) on line 5.

If your spouse was a full-time student or not able to care for himself or herself, use the greater of your spouse's monthly earned income or $166 ($333 if you listed two qualifying persons on line 1(a)) to determine his or her total income for the year.

If, in the same month, both you and your spouse were full-time students and did not work, you cannot use any amount paid that month to figure the credit. The same applies to a couple who did not work because neither was capable of self-care.

Line 6.—Enter the amount from line 4 or line 5, whichever is smaller.

Line 7.—How much of the amount [illegible] line 6 did you pay in 1981? Enter [illegible] amount on line 7. Do not list any amounts for 1981 that you did not pay until 1982.

Line 8.—If you had child and dependent care expenses for 1980 that you did not pay until 1981, add them and enter the total on this line. Be sure the total is not over your 1980 limit. Attach a sheet similar to the example below, showing how you figured the amount you are carrying over to 1981.

Example: In 1980 you had child care expenses of $2,100 for your 12-year-old son. For one child, you were limited to $2,000. Of the $2,100, you paid $1,800 in 1980 and $300 in 1981. Your spouse's earned income of $5,000 was less than your earned income. You would be allowed to figure a credit on $200 in 1981, as follows:

(1)	1980 child care expenses paid in 1980 .	$1,800
(2)	1980 child care expenses paid in 1981 .	300
(3)	Total	2,100
(4)	Limit for one qualifying person . . .	2,000
(5)	Earned income reported in 1980 . . .	5,000
(6)	Smaller of line 3, 4, or 5	2,000
(7)	Subtract child care expenses on which credit was figured in 1980	1,800
(8)	1980 child care expenses carried over for credit this year (1981)	$ 200

Line 9.—Add lines 7 and 8 and enter the total on line 9.

Line 10.—Multiply the amount on line 9 by 20% and enter the result on line 10.

Line 11.—Your credit for child and dependent care expenses cannot be more than your tax after subtracting certain credits. To figure the allowable credit, enter your tax from Form 1040, line 37, on line 11a. Add the amounts, if any, you entered on Form 1040, lines 38, 39, and 41 through 43. Enter the total of these lines on line 11b. Subtract line 11b from 11a and enter the difference on line 11c. If line 11b is more than line 11a, enter zero on line 11c.

Line 12.—Enter the smaller of line 10 or 11c on this line and Form 1040, line 40. This is your credit for child and dependent care expenses.

Line 13.—On line 13(a), check the yes box if you paid cash wages to an employee for household services. Check the no box if you did not. In general, if you paid cash wages of $50 or more in a calendar quarter for household services to a person such as a cook, housekeeper, governess, maid, cleaning person, babysitter, etc., you must file an employment tax return. If you are not sure whether you should file an employment tax return, ask the Internal Revenue Service or get Form 942, Employer's Quarterly Tax Return for Household Employees. **Note:** *You should file a Form 940, Employer's Annual Federal Unemployment Tax Return, for 1981 by February 1, 1982, if you paid cash wages of $1,000 or more for household services in any cale[illegible] quarter in 1980 or 1981.*

On line 13(b), check the yes box if you have filed appropriate wage tax returns. Check the no box if you have not.

On line 13(c), enter your employer identification number if you checked the yes box on line 13(b).

☆U.S. GPO:1981-0-343-167

Form **3468**
Department of the Treasury
Internal Revenue Service (X)

Computation of Investment Credit

▶ Attach to your tax return.
▶ Use separate Schedule B (Form 3468) to figure your tentative business energy investment credit.

OMB. No. 1545-0155
1981
27

Name

Identifying number as shown on page 1 of your tax return

Part I Elections (Check the box(es) below that apply to you (see Instruction D).)

A The corporation elects the basic or basic and matching employee plan percentage under section 48(n)(1) . . . . ☐

B I elect to increase my qualified investment to 100% for certain commuter highway vehicles under section 46(c)(6) . . . . . . ☐

C I elect to increase my qualified investment by all qualified progress expenditures made this tax year and all later years . . . . ☐

Enter total qualified progress expenditures included in column (4), Part II ▶......................

D I claim full credit on certain ships under section 46(g)(3). (See Instruction B for details.) . . . . ☐

Part II Qualified Investment

Figure your qualified investment in new or used investment credit property acquired or constructed and placed in service during the tax year. The qualified investment for qualified progress expenditures and qualified rehabilitation expenditures is allowed in the tax year the expenditure is incurred or in the case of self-constructed property the year the expenditure is chargeable to a capital account for the property.

For certain taxpayers, the basis or cost of property placed in service after February 18, 1981, is limited to the amount the taxpayer is at risk for the property at year end. See Instruction E.

Note: *Include your share of investment in property made by a partnership, estate, trust, small business corporation, or lessor.*

1 Recovery Property	Line	(1) Recovery Period	(2) Unadjusted Basis	(3) Applicable percentage	(4) Qualified investment (Column 2 × column 3)
New	(a)	3-Year		60	
	(b)	Other		100	
Used	(c)	3-Year		60	
	(d)	Other		100	
2 Total—Add lines 1(a) through 1(d)				2	

3 Nonrecovery Property	Line	(1) Life years	(2) Basis or cost	(3) Applicable percentage	(4) Qualified investment (Column 2 × column 3)
New	(a)	3 or more but less than 5		33⅓	
	(b)	5 or more but less than 7		66⅔	
	(c)	7 or more		100	
Used	(d)	3 or more but less than 5		33⅓	
	(e)	5 or more but less than 7		66⅔	
	(f)	7 or more		100	

4 Total—Add lines 3(a) through 3(f)	4	
5 New commuter highway vehicle—Enter total qualified investment. (See Instruction D) . . .	5	
6 Used commuter highway vehicle—Enter total qualified investment. (See Instruction D) . . .	6	
7 Qualified rehabilitation expenditures incurred before January 1, 1982, for: (see specific instructions)		
(a) Improvements with 5 or more but less than 7 years—Enter 66⅔% of expenditures . . .	7(a)	
(b) Improvements with 7 or more life years—Enter 100% of expenditures	7(b)	
8 Total qualified investment in 10% property—Add lines 2, 4, 5, 6, 7(a) and 7(b). (See instructions for special limits) .	8	
9 Enter 100% of qualified rehabilitation expenditures incurred after December 31, 1981, for: . .		
(a) 30-year old buildings	9a	
(b) 40-year old buildings	9b	
(c) Certified historic structures (Enter the Dept. of Interior assigned project number ....)	9c	
10 Total qualified investment—Add lines 8, 9(a), 9(b), and 9(c)	10	

Part III Tentative Regular Investment Credit

11 10% of line 8	11	
12 15% of line 9(a)	12	
13 20% of line 9(b)	13	
14 25% of line 9(c)	14	
15 Corporations electing the basic or basic and matching employee plan percentage for contributions to tax credit employee stock ownership plans—Check box A above (see Instruction D)		
(a) Basic 1% credit—Enter 1% of line 10	15a	
(b) Matching credit (not more than 0.5%)—Enter allowable percentage times adjusted line 10 (attach schedule) .	15b	
16 Credit from Cooperative—Enter regular investment credit from cooperatives	16	
17 Current year regular investment credit—Add lines 11 through 16	17	
18 Carryover of unused credits	18	
19 Carryback of unused credits	19	
20 Tentative regular investment credit—Add lines 17, 18, and 19, enter here and in Part IV, line 21 .	20	

For Paperwork Reduction Act Notice, see page 2.

Tax Liability Limitations

21 Tentative credit from Part III, line 20 . . . . 21 ______

22 (a) Individuals—Enter amount from Form 1040, line 37, page 2 . . . .
(b) Estates and trusts—Enter amount from Form 1041, line 26, page 1 . . . .
(c) Corporations—Enter amount from Schedule J (Form 1120), line 3, page 3 . . . . . .
(d) Others—Enter tax before credits from your return . . . . } 22 ______

23 (a) Credit for the elderly (individuals only) . . . . 23(a) ______

(b) Foreign tax credit . . . . 23(b) ______

(c) Tax on lump-sum distribution from Form 4972 or Form 5544 . 23(c) ______

(d) Possessions corporation tax credit (corporations only) . . . 23(d) ______

(e) Section 72(m)(5) penalty tax (individuals only) . . . . . . 23(e) ______

24 Total—Add lines 23(a) through 23(e) . . . . 24 ______

25 Subtract line 24 from line 22 . . . . 25 ______

26 (a) Enter smaller of line 25 or $25,000. See instruction for line 26 . . . . 26(a) ______

(b) If line 25 is more than line 26(a), and your tax year ends in 1981, enter 80% of the excess (if your tax year ends in 1982, enter 90% of the excess) . . . . 26(b) ______

27 Regular investment credit limitation—Add lines 26(a) and 26(b) . . . . 27 ______

28 Allowed regular investment credit—Enter the smaller of line 21 or line 27 . . . . 28 ______

29 Business energy investment credit limitation—Subtract line 28 from line 25 . . . . 29 ______

30 Business energy investment credit—Enter amount from line 14 of Schedule B (Form 3468) . 30 ______

31 Allowed business energy investment credit—Enter smaller of line 29 or line 30 . . . . . . 31 ______

32 Total allowed regular and business energy investment credit—Add lines 28 and 31. Enter here and on Form 1040, line 41; Schedule J (Form 1120), line 4(b), page 3; or the proper line on other returns . . . . 32 ______

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carryout the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and so that we can figure and collect the correct amount of tax. You are required to give us this information.

1981 **Department of the Treasury**
Internal Revenue Service

Instructions for Form 3468

Computation of Investment Credit

(References are to the Internal Revenue Code)

1980–81 Fiscal year taxpayers may use 1981 Form 3468 if 1981 tax law changes affect their 1980–81 tax year. See specific instructions.

Highlights for 1981

1. The investment credit is increased based on increased applicable percentages for accelerated cost recovery property. See lines 1(a) through 1(d) of Form 3468 and related instructions.

2. A separate 1981 Schedule B (Form 3468) is provided for computation of the tentative business energy investment credit. The credit from separate Schedule B is entered on line 30 of Form 3468.

3. Partnerships and 1120S corporations must now complete certain parts of Form 3468. See Specific Instructions.

4. Effective for property placed in service after February 18, 1981, the basis and cost of investment credit property is limited to the amount at risk for certain taxpayers. See Instruction E.

5. The investment credit for certain rehabilitation expenditures made after December 31, 1981, is increased. See lines 9, 12, 13, and 14 of Form 3468.

6. Certain petroleum storage facilities qualify for the investment credit after December 31, 1980.

7. The used property limitation is increased from $100,000 to $125,000. See Instructions for lines 1(c)–(d), 3(d)–(f), and 6.

8. An unused investment credit may be carried back 3 years and forward 15 years. See Instructions for lines 18 and 19.

General Instructions

A. Purpose.—An individual, estate, trust, or corporation claiming a regular or business energy investment credit uses Form 3468 to figure the credit and make certain elections.

A partnership and subchapter S corporation completes only Part I and a portion of Part II of Form 3468 to figure the basis or cost of property to pass through to their individual partners and shareholders. Form 3468 is attached to the partnership and corporate return to show the total cost or basis of property that is passed through.

This credit does not apply to a Domestic International Sales Corporation (DISC). It is not divided among DISC shareholders.

For detailed information on investment credit, see Publication 572, Investment Credit, and the regulations under sections 46 and 48.

How to Claim the Credit.—Attach Form 3468 to your tax return. Enter the allowed credit from line 32 on the proper line of your return.

An estate or trust that divides the qualified investment among itself and its beneficiaries must also attach a statement showing each beneficiary's share of the basis of new property, the cost of used property, qualified rehabilitation expenditures, qualified progress expenditures, qualified basis in amortizable forestation and reforestation expenditures, and the life-years assigned to the property.

If you are a partner, beneficiary, shareholder in a subchapter S corporation, or lessee, use Form 3468 to figure the credit based on your share of the investment by the partnership, trust, estate, subchapter S corporation, or lessor.

B. How to Figure the Credit.—The credit for new property is figured on the basis of the property. You do not have to reduce the basis of new property for additional first-year depreciation or salvage value before figuring the credit.

The credit for used property is figured on the cost of the property. The cost of used property does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier, or a reduction in an investment credit carryback or carryover.

For nonrecovery property the useful life of the property for investment credit must be the same as the useful life for depreciation or amortization.

For recovery property, the class of property determines the percentage qualifying for investment credit. Even if you elect an alternate recovery period under section 168(b) of 5 or 12 years for 3-year property, the property is still treated as 3-year property, and the lower percentage applies.

See section 48(k) for special rules on figuring investment credit for movie and television films or tapes.

See section 46(e) for limitations on the investment credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Generally, you may only take an investment credit of half of the regular investment credit for certain vessels. See sections 46(g)(1) through (6) for more information. If you claim the full credit, check box D in Part I of Form 3468.

C. Regular Investment Credit Property.—Generally, you may take the investment credit the first year you place qualified property in service, make qualified progress or rehabilitation expenditures, or acquire an amortizable basis in qualified forestation or reforestation expenditures.

The property must be depreciable property used in a trade or business with a life of 3 years or more. Enter only the business part of the investment in property that is for both business and personal use.

Examples of investment credit property and property that is not investment credit property are listed below. For more details see Publication 572.

Generally, investment credit property is:

(1) Tangible personal property as defined in section 48(a)(1).

(2) Elevators and escalators.

(3) Other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research facility or bulk storage facility for fungible commodities for these activities.

(4) Livestock other than horses if you do not sell or dispose of substantially identical livestock (not subject to recapture tax) during the 1-year period beginning 6 months before the date you got the livestock. Reduce the cost of the livestock you got by the amount you received on the disposition of the substantially identical livestock.

(5) Certain single-purpose agricultural or horticultural structures defined in section 48(p).

(6) Effective before January 1, 1982: Rehabilitation expenditures for business and productive buildings that have been in use for at least 20 years. This does not include those to be used in residences, such as apartments.

Effective after December 31, 1981: Rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures. See sections 46(a)(2)(F) and 48(g) for details.

(7) Forestation and reforestation expenditures that are amortizable under section 194. See section 48(a)(1)(F) for more information.

(8) Petroleum storage facilities after December 31, 1980. Section 48(m) transitional rules apply to this property.

Exceptions.—The regular investment credit generally does not apply to property that is:

(1) Used mainly outside the U.S.

(2) Used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in an unrelated trade or business.

(3) Used by governmental units.

(4) Used for lodging or for furnishing the lodging (see section 48(a)(3) for exceptions, i.e. hotel or motel furnishings).

(5) Amortized or depreciated under sections 184, 167(k), 191, and 188.

(6) Acquired or constructed with "excluded cost-sharing payments" from grants made after September 30, 1979, under any program listed in section 126(a) or by grants under the Energy Security Act.

D. Elections.—There are certain elections you may make that affect the amount of investment credit you can claim. Some of these elections are made by checking the boxes in Part I of Form 3468. Others are made by attaching a statement to Form 3468.

(1) Employee Plan Percentages.—A corporation may elect an additional credit for a contribution of stock or cash to a tax credit employee stock ownership plan. This required contribution must equal at least 1% of the qualified investment (line 10) minus any part of the additional credit carried over to a later year. Make the election by checking box A in Part I of Form 3468.

(2) Commuter Highway Vehicle.—Employers may elect under section 46(c)(6) to claim the full investment credit for commuter highway vehicles with a useful life of 3 years or more but less than 7 years (vehicles with a useful life of 7 years or more qualify for the full credit without the election). Make this election by checking box B in Part I of Form 3468. See section 46(c)(6) for the definition of commuter highway vehicle and other details. Enter 100% of basis in new vehicles on line 5, and 100% of cost (subject to the overall limitation) of used vehicles on line 6.

(3) Qualified Progress Expenditures.—You may elect under section 46(d) to increase your qualified investment for a year by qualified progress expenditures. Make this election by checking box C in Part I of Form 3468. The election applies to all progress expenditure property for the tax

year it is made and all later tax years. On the line between blocks C and D, Part I, enter your 1981 qualified investment (column (4) of Part II) for progress expenditures for which you made an election in any tax year.

(4) Election for Leased Property.—If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. See section 48(d) and regulations sections 1.48–4(f) and (g) for making the election. For the limitation on the availability of the credit to certain owners of property for lease, see section 46(e)(3).

E. At Risk Limitation for Individuals, Subchapter S Corporations, and Personal Holding Companies.—Effective for investment credit property (and certain energy property) placed in service after February 18, 1981, the allowable basis or cost of property for investment credit purposes is limited to the amount a taxpayer is at risk for the property at the close of the taxpayer's tax year.

A person is generally considered at risk for property to the extent of the qualified loans and cash and the adjusted basis of property contributed for acquisition or construction of property. See Publication 572 and sections 46(c)(8) and 465 for definitions, exceptions, and other details.

Specific Instructions

1980–81 Fiscal Year Taxpayers.—If any of the 1981 tax law changes (see highlights) affect the amount of investment credit you are allowed for your 1980–81 tax year, you may figure your investment credit for your 1980–81 tax year on the 1981 Form 3468 (using those provisions of law that pertain to you) instead of the 1980 Form 3468. Enter the credit from line 32 of the 1981 Form 3468 on the appropriate line of your 1980 tax return.

If you have already filed your 1980–81 income tax return and claimed a different investment credit than you are now entitled to, you should file Form 1040X, 1120X, or an amended income tax return, whichever applies, and attach a completed 1981 Form 3468 to your return.

Partnerships and Subchapter S corporations are to complete Form 3468 as follows:

(1) Enter name and identifying number at top of form.

(2) Make necessary elections in Part I.

(3) Complete only column (2) of lines 1(a)—1(d) and 3(a)—3(f). Complete lines 5, 6, 7, and 9. See General Instruction E before completing these lines.

Recovery Property. Lines 1(a)—1(d).—Enter on the proper line the unadjusted basis of new or used recovery property. Recovery property is property that is depreciated under the Accelerated Cost Recovery System (ACRS). See sections 46(c)(7) and 168.

Nonrecovery Property. Lines 3(a)—3(f).—Enter the basis or cost of nonrecovery property. Nonrecovery property includes all property placed in service before January 1, 1981, and certain other property that does not qualify for ACRS. See section 168(e).

Enter the amortizable basis in forestation and reforestation expenditures on line 3(c). See section 48(a)(1)(F). See section 46(c)(5) for rules for certain pollution control facilities.

Qualified Progress Expenditures. Lines 1(a), 1(b), 3(a), 3(b), and 3(c).—Enter on the proper line the amount of qualified progress expenditures made in the tax year. Before January 1, 1981, progress expenditure property had to have a useful life of 7 years or more. After December 31, 1980, the useful life or recovery period can be any period or life of 3 years or more.

Do not take any qualified progress expenditures for the year in which the progress expenditure property is placed in service or for the year for which recapture is required for the property. The investment credit allowed for the year the property is placed in service is based on the entire qualified investment in the property reduced by the progress expenditures that were included as qualified investment in earlier years.

See section 46(d) for more information.

Used Property Dollar Limitation. Lines 1(c)—(d), 3(d)—(f), and 6.—In general, for tax years beginning in 1981 you may not take into account more than $125,000 ($100,000 for tax years beginning in 1980) of the cost of used property in any one year. Determine the $125,000 amount before applying the percentages based on recovery period or useful life. On the proper line, enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property you inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to $62,500. If one of them has no qualifying used property, the other may claim up to $125,000.

The $125,000 limitation applies to a partnership, subchapter S corporation, estate, or trust. The $125,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. The $125,000 limitation also applies to each partner, shareholder, and beneficiary. Controlled corporate groups must divide the limitation among all component members. See section 48(c) and related regulations.

Lines 7(a), 7(b), 9(a), 9(b), and 9(c). Rehabilitation Expenditures.—Enter on the proper line the qualified rehabilitation expenditures made during the tax year.

Before January 1, 1982, the additions or improvements for which rehabilitation expenditures were made had to have a useful life of 5 years or more. After December 31, 1981, the additions or improvements must have a useful life of 15 years or more.

After December 31, 1981, the increase in basis of the qualified rehabilitated building that would result from the expenditures must be decreased by the allowed credit except in the case of certified historic structures. The increase in basis must be depreciated by a straight line depreciation method. See section 212(e)(2) of the Economic Recovery Tax Act of 1981 for transitional rules and code section 48(g) for other details.

If you claim a credit for a certified historic structure on line 9(c), you must enter the project number assigned by the Department of Interior. You must also attach a copy of the final certification letter issued by the Department of Interior to the first return you file after receiving the certification. If you have not yet received the final certification, attach a copy of the first page of the application you submitted (U.S. Department of the Interior Form FHR–8–253a, Historic Preservation Certification Application—Part 2).

Lines 8, 9, and 26(a) Limitations.—Mutual savings institutions, regulated investment companies, and real estate investment trusts are subject to special limitations for the amounts to be entered on lines 8, 9(a)–(c), and line 26(a). See regulations section 1.46–4.

Line 11.—Generally, the percentage is 10% of line 8. However, to the extent basis is attributable to construction before January 22, 1975, the percentage is 7% (4% for public utility property). If you have this property, do not enter the credit on this line. Include it on line 16, and write "7% (or 4%) credit $........................" on the dotted line next to the entry space. Attach a separate computation identifying the property.

Line 15(a).—You may take the additional 1% credit if you qualify and make the election. See General Instruction D(1).

Line 15(b).—The matching employee plan credit on line 15(b) is limited to a maximum of 0.5% times the qualified investment for property acquired, constructed, or erected after 1976. See section 46(a)(2)(E).

Line 16. Credit from Cooperative.—Section 1381(a) cooperative organizations may claim the regular and energy investment credits. If the cooperative cannot use any of the credit because of the tax liability limitation that applies, the unused credit from tax years ending after October 31, 1978, must be allocated to the patrons of the cooperative. The recapture provisions of section 47 apply as if the cooperative had kept the credit and not allocated it.

Patrons should enter their regular investment credit from a cooperative on line 16.

Lines 18 and 19.—Carryback and Carryover of Unused Credits.—If you cannot use part of a regular or energy investment credit earned in any tax year ending after Dec. 31, 1973, because of tax liability limitations or the operation of the alternative minimum tax, you may carry it back 3 years and forward 15 years. You must apply the unused credit first to the earliest of the years to which it may be carried, and then to each of the other tax years. However, if you are subject to the alternative minimum tax, you may be able to apply your investment credit from the active conduct of a trade or business against that tax. See Form 6251, Computation of Alternative Minimum Tax, for more information.

Line 26. Limitation.—If the tax liability (line 25) is $25,000 or less, the investment credit may not be more than the amount of the tax liability.

If the tax liability is more than $25,000, the credit may not be more than $25,000 plus 80% of the excess for 1981 calendar year taxpayers (90% for tax years ending in 1982).

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. However, if only one has any qualifying investment, that one may use the entire $25,000.

Controlled corporate groups (see section 46(a)(6)) must divide the $25,000 among all component members.

An estate or trust must allocate the $25,000 among itself and its beneficiaries in the same ratio as the qualified investment was allocated.

Line 29. Business Energy Investment Credit Limitation.—The energy credit is limited to the tax on line 25 minus the regular investment credit allowed on line 28.

Form **4255**
(Rev. Nov. 1981)
Department of the Treasury
Internal Revenue Service

Recapture of Investment Credit

(Including Energy Investment Credit)

▶ Attach to your income tax return

OMB No. 1545-0166
Expires 11-30-83

▶ Attach separate schedules for recapture of investment credit from disposed qualified progress expenditure property and property ceasing to be at risk (see instructions for lines 13a and 13b).

Name

Identifying number as shown on page 1 of your tax return

Properties	Kind of property (State whether recovery or nonrecovery. If energy property, show type of property. Indicate if rehabilitation expenditure property.)
A	
B	
C	
D	
E	

Original Investment Credit

Computation Steps:	Properties A	B	C	D	E
1 Original rate of credit					
2 Date property was placed in service					
3 Cost or other basis					
4 Original estimated useful life or class of property (see instructions)					
5 Applicable percentage					
6 Original qualified investment (line 3 times line 5)					
7 Original credit (line 1 times line 6)					
8 Date property ceased to be investment credit property (see instructions)					
9 Number of full years between the date on line 2 and the date on line 8					

Computation of Recapture Tax

	A	B	C	D	E
10 Recapture percentage (see instructions)					
11 Tentative recapture tax—Line 7 times line 10					

12 Add line 11, columns A through E	
13 a Enter tax from disposed qualified progress expenditure property (attach separate computation)	
b Enter tax from any part of property ceasing to be at risk (attach seperate computation)	
14 Total—Add lines 12, 13a and 13b	
15 Unused credit—Do not enter more than line 14 (see instructions)	
16 Total increase in tax—Subtract line 15 from line 14. Enter here and on the proper line of your tax return. Do not use this amount to reduce current year's investment credit figured on Form 3468, Computation of Investment Credit. Any unused credit on line 15 cannot be used in any year as a carryback or carryover	

For Paperwork Reduction Act Notice, see instructions on back.

General Instructions

References are to the Internal Revenue Code.

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose.—Use Form 4255 to figure the increase in tax for the recapture of investment credit for regular and energy property. You must refigure the credit if you took it in an earlier year, but later disposed of the property before the end of the recapture period for recovery property or of the useful life you used to figure the original credit for nonrecovery property. You must also refigure the credit if you changed the use of the property so that it no longer qualified as regular or energy investment credit property. Also, see instructions for line 13b regarding recapture if property ceases to be at risk. For more information, see **Publication 572**, Investment Credit.

If property on which you took both the regular and energy investment credit ceases to be energy credit property, but still qualifies as regular investment credit property, you need only refigure the energy investment credit. However, if you took both credits, and you dispose of the property, or the property ceases to be both energy and regular investment credit property, you must refigure both credits.

If you are a subchapter S corporation, a partnership, or an estate or trust that shared the investment credit among the estate or trust and the beneficiaries, you must give your shareholders, partners, or beneficiaries the information they need to refigure the credit. See regulations sections 1.47–4, 1.47–5 and 1.47–6.

Special rules.—If you took the credit on the following kinds of property, see the sections listed below before you complete Form 4255:

Property	IRC section
Motion picture films and video tape	47(a)(8)
Ships	46(g)(4)
Commuter highway vehicles	47(a)(4)

If you dispose of property and you had elected the basic or basic and matching employee plan percentage for contributions to tax credit employee stock option plans, see section 48(n)(4).

If you took an investment credit on railroad property, and then transferred the property to Conrail after March 31, 1976, you do not have to refigure the credit.

If you took any credit for production of fuel from nonconventional sources, see section 44D(b)(4).

Specific Instructions

Note: *Do not figure the recapture tax for qualified progress expenditure property or for property ceasing to be at risk on lines 1 through 12. Figure the recapture tax for these properties on separate schedules and enter the recapture tax on lines 13a and 13b. Enter any unused credit for these properties on line 15.*

Lines A through E.—Describe the property for which you must refigure the credit for regular or energy investment credit. For energy property, show type or kind of property. Also, indicate if property is rehabilitation expenditure property.

Fill in lines 1 through 11 for each property on which you are refiguring the credit. Use a separate column for each item. If you must recapture both the energy investment credit and the regular investment credit for the same item, use a separate column for each credit. If you need more columns, use additional Forms 4255, or other schedules with all the information shown on Form 4255. Enter the total from the separate sheets on line 12.

Line 1.—Enter the rate you used to figure the original credit as determined from the table below:

Regular Investment Property:

Public utility property ordered after March 31, 1971, or acquired after August 15, 1971, and before January 22, 1975	4%
Property acquired or constructed before January 22, 1975	7%
Property (including public utility property) acquired or constructed and placed in service after January 21, 1975	10%

(The part constructed before January 22, 1975, is at the 7% (or 4%) rate, even if placed in service after that date.)

See section 46(a)(2)(F) for the allowed percentage rates for qualified rehabilitation expenditures made after December 31, 1981.

Energy Investment Property:

Alternative energy property, specially defined energy property, recycling equipment, shale oil equipment, equipment for producing natural gas from geopressured brine, cogeneration equipment, and intercity buses	10%
Qualified hydroelectric generating equipment	11%
Solar and wind equipment acquired or constructed before 1/1/80	10%
Solar and wind equipment, ocean thermal equipment, and geothermal equipment acquired or constructed after 12/31/79	15%

Line 2.—For nonrecovery property, enter the first day of the first month and the year that the property was available for service. For recovery property, enter the date the property was placed in service.

Line 3.—Enter the cost or other basis of nonrecovery property (unadjusted basis of recovery property) that you used to figure the original credit.

Line 4.—Enter the estimated useful life that you used to figure the original credit for nonrecovery property. Enter the class of property for recovery property.

Line 5.—Enter the applicable percentage that you used to figure the original qualified investment from the tables below:

Nonrecovery Property

Original estimated useful life:	Applicable percentage
3 or more but less than 5 years	33⅓%
5 or more but less than 7 years	66⅔%
7 or more years	100%

Recovery Property

Class of property	Applicable percentage
3-year	60%
Other	100%

Line 6.—Multiply line 3 by line 5 to get the original qualified investment.

Line 7.—Multiply line 6 by the rate on line 1 to get the original investment credit.

Line 8.—Enter the date the property ceased to be qualified property. See regulations section 1.47–1(c) for more information.

Line 9.—Enter the number of full years between the date on line 2 and the date on line 8. Do not enter partial years. If property was held less than 12 months, enter zero.

Line 10.—Enter the recapture percentage from the following tables.

Nonrecovery Property

If number of full years on line 9 of Form 4255 is:	The recapture percentage for property with an original useful life of:		
	3 or more but less than 5 years is	5 or more but less than 7 years is	7 or more years is
0	100	100	100
1	100	100	100
2	100	100	100
3	0	50	66.6
4	0	50	66.6
5	0	0	33.3
6	0	0	33.3

Recovery Property

If number of full years on line 9 of Form 4255 is:	The recapture percentage for:	
	3-year property is	15-year, 10-year, and 5-year property is
0	100	100
1	66	80
2	33	60
3	0	40
4	0	20

Line 12.—Add line 11, columns A through E. If you have used more than one Form 4255, or separate sheets to list additional items on which you figured an increase in tax, write on the dotted line "Tax from attached $..................." Include the amount in the total for line 12.

Line 13a.—See section 47(a)(3) for information on recapturing investment credit on the disposal of qualified progress expenditure property. Attach a separate computation schedule and enter the recapture tax on line 13a.

Line 13b.—For certain taxpayers, the basis or cost of property placed in service after February 18, 1981, is limited to the amount the taxpayer is at risk for the property at year end. If property ceases to be at risk in a later year, recapture may be required. See section 47(d) for details. Attach a separate computation schedule to figure the recapture tax and enter the total tax on line 13b.

Line 15.—If you did not use all the credit you originally figured, either in the year you figured the credit or in a carryback or carryover year, you have an unused credit. You must also take into account the current year's unused credit in figuring the increase in tax. See regulations section 1.47–1(d), Revenue Ruling 72–221, and **Publication 572** for more information.

Figure the unused credit on a separate sheet and enter the total unused credit on this line. Do not enter more than the recapture tax on line 14.

Line 16.—Subtract line 15 from line 14. This is the total increase in tax. Enter it on the proper line of your tax return. Do not use this amount to reduce your current year's investment credit from Form 3468, Computation of Investment Credit.

U.S. GOVERNMENT PRINTING OFFICE: 1981-757-058:322

Form **1116**

Department of the Treasury
Internal Revenue Service

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

▶ Attach to Form 1040, 1041, or 1040NR.
▶ See separate instructions.

OMB No. 1545-0121

1981

For calendar year 1981, or other tax year beginning , 19 , and ending , 19 .

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each type of income. Check only one box below.

This form is being completed for credit for taxes on:

☐ Nonbusiness (section 904(d)) interest income
☐ Dividends from a DISC or former DISC
☐ Foreign oil related income
☐ All other income from sources outside the U.S. (including income from sources within U.S. possessions)

Resident of (name of country)

Citizen of (name of country)

Note: *If, for the box checked above, you have income from or have paid taxes to MORE THAN ONE foreign country or U.S. possession, you must complete and attach Schedule A, Form 1116, Schedule of Foreign Taxable Income and Foreign Taxes Paid or Accrued. If you use Schedule A, do not complete Parts I and II below.*

Part I Taxable Income from Sources Outside the U.S.

Name of Foreign Country or U.S. Possession ▶

1 Gross income from sources outside the U.S.:				
a Dividends	1a			
b Gross rents and royalties	1b			
c Foreign source capital gain net income	1c			
d Wages, salaries, and other employee compensation	1d			
e Business or profession (sole proprietorship)	1e			
f Gross income from trusts and estates	1f			
g Other (including interest—attach schedule)	1g			
h Total (add lines 1a through 1g)			1h	
2 Applicable deductions and losses (see instructions):				
a Expenses directly allocable to business or profession	2a			
b Depreciation and depletion directly allocable to rent and royalty income	2b			
c Repairs and other expenses directly allocable to rent and royalty income	2c			
d Other expenses directly allocable to specific income items (attach schedule)	2d			
e Pro rata share of all other deductions not directly allocable:				
(i) Itemized deductions not directly allocable (attach schedule)				
(ii) Other deductions not directly allocable (attach schedule)				
(iii) Total (Add lines 2e(i) and 2e(ii))				
(iv) Total foreign source income (see instructions)				
(v) Gross income from all sources (see instructions)				
(vi) Divide line 2e(iv) by line 2e(v)				
(vii) Multiply line 2e(vi) by line 2e(iii)	2e			
f Losses from foreign sources	2f			
g Total applicable deductions and losses (add lines 2a—2d, 2e(vii), and 2f)			2g	
3 Taxable income or (loss) from sources outside the U.S. (before recapture of prior year overall foreign losses). Subtract line 2g from line 1h. Enter here and in Part III, line 6			3	

Part II Foreign Taxes Paid or Accrued (Attach receipt or copy of return)

		Date Paid or Accrued	In Foreign Currency	In U.S. Dollars		
1 Credit is for taxes ☐ paid or ☐ accrued (you must check one)						
2 Foreign taxes paid or accrued:						
a Taxes withheld at source on dividends	2a					
b Taxes withheld at source on rents and royalties	2b					
c Other foreign taxes paid or accrued	2c					
d Total foreign taxes paid or accrued in U.S. dollars. Add lines 2a, 2b, and 2c. Enter here and in Part III, line 1					2d	

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Form **1116** (1981)

Part III Computation of Foreign Tax Credit

1 Total foreign taxes paid or accrued (from Part II, line 2d or from Schedule A, Part II, "Total")	1			
2 Carryback or carryover (attach detailed computation)	2			
3 Add line 1 and line 2	3			
4 Reduction in foreign taxes. See instructions	4			
5 Total foreign taxes available for credit (subtract line 4 from line 3)			5	
6 Taxable income or (loss) from sources outside the U.S. (from Part I, line 3 or from Schedule A, Part I, line 3). If loss, you have no foreign tax credit for the income you checked above. Skip lines 7 through 17	6			
7 Recapture of prior year overall foreign losses (attach computation)	7			
8 Net foreign source taxable income (subtract line 7 from line 6)			8	
9 Individuals: Enter amount from Form 1040, line 32c or Form 1040NR, line 38. Estates and trusts: Make no entry; skip to line 11	9			
10 Enter $3,400 (joint return or widow(er)), $2,300 (single or head of household), or $1,700 (married filing separate return)	10			
11 Individuals: Subtract line 10 from line 9. Estates and trusts: Enter on this line your taxable income without the deduction for your exemption			11	
12 Divide line 8 by line 11 (if line 8 is more than line 11, enter the figure "1")			12	
13 Total U.S. income tax before any credits	13			
14 Credit for the elderly	14			
15 Subtract line 14 from line 13			15	
16 Limitation on credit (multiply line 15 by line 12)			16	
17 Foreign tax credit (line 5 or line 16, whichever is smaller)			17	

Part IV Summary of Credits from Separate Parts III

1 Credit for taxes on nonbusiness (section 904(d)) interest	1			
2 Credit for taxes on dividends from a DISC or former DISC	2			
3 Credit for taxes on foreign oil-related income	3			
4 Credit for taxes on all other income from sources outside the U.S. (including income from sources within U.S. possessions)	4			
5 Total (add lines 1 through 4)			5	
6 Reduction in credit for international boycott operations (see "Reduction of Credit for International Boycott Operations" in instructions for Part III)			6	
7 Foreign tax credit (subtract line 6 from line 5). Enter here and on your tax return ▶			7	

1981 Department of the Treasury
Internal Revenue Service

Instructions for Form 1116

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

(References are to the Internal Revenue Code and Income Tax Regulations)

General Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form 1116

Form 1116 is used to determine the amount of your foreign tax credit.

To take this credit, complete Form 1116 and attach it to your income tax return when you file it. If you have income from or have paid taxes to more than one foreign country or U.S. possession, you may have to complete and attach Schedule A (Form 1116), Schedule of Foreign Taxable Income and Foreign Taxes Paid or Accrued. For more information, please get Publication 514, Foreign Tax Credit for U.S. Citizens and Resident Aliens. You can get it from most IRS offices.

Note: U.S. citizens who live in France may be able to take a foreign tax credit against their U.S. tax liability for the French tax imposed on certain items of income from the United States. See Publication 514 for more information.

Who May Take the Credit?

In general, an individual, estate, or trust may take the credit, but there are some exceptions.

You may not take the credit if you are:

(1) A U.S. citizen who is exempt from U.S. tax on income from certain U.S. possessions.

(2) A bona fide resident of the Virgin Islands.

(3) A nonresident alien, in most cases. However, if you are a nonresident alien and qualify under (a) or (b) below, you may be able to take the credit:

(a) You are a resident of Puerto Rico during your entire tax year, or

(b) You are a nonresident alien who pays or accrues tax to a foreign country or U.S. possession on income effectively connected with a trade or business in the United States. However, if you have to pay tax to a foreign country or U.S. possession on income from U.S. sources only because you are a citizen or a resident of that country or U.S. possession, that tax may not be used in figuring the amount of your credit. A person that is a citizen of a U.S. possession (except Puerto Rico or Guam) but not otherwise a U.S. citizen and not a U.S. resident is considered a nonresident alien.

For more information, please get Publication 519, U.S. Tax Guide for Aliens.

Foreign Taxes You May Take a Credit For

You may take the credit for income, war profits, and excess profits taxes paid or accrued during the tax year to any foreign country or U.S. possession or any political subdivision, agency, or instrumentality of the country or possession. (Examples of political subdivisions are a city, state, or province.) For purposes of this credit, U.S. possessions include Puerto Rico, Guam, and the Virgin Islands.

These taxes include taxes that are paid or accrued in lieu of an income, war profits, or excess profits tax that is otherwise generally imposed.

You may not take credit for excess tax payments to a foreign country if you could get a refund of the excess by making a refund claim. See Publication 54, Tax Guide for U.S. Citizens Abroad.

You may not take a credit for certain payments for oil or gas as taxes if you do not have an economic interest in the oil or gas to which these payments apply and the price paid or received is a price other than the fair market value of the oil gas (section 901(f)).

You may not take a credit for any interest or penalties you must pay.

U.S. Taxes You May Take the Credit Against

In general, you may take the credit against income tax imposed by Chapter I of the Internal Revenue Code, reduced by the credit for the elderly.

You may not take it against any of the following:

(1) Tax from recomputing prior year investment tax credit.

(2) Minimum tax for tax preferences.

(3) Tax on early distributions to owner-employees.

(4) Tax on lump-sum distributions.

(5) Tax on certain distributions from individual retirement arrangements.

If you are a nonresident alien, you may not take the credit against any tax imposed on income not effectively connected with a trade or business in the United States.

If you are liable for the alternative minimum tax, you will have to recompute your foreign tax credit. For a discussion of alternative minimum tax, see Publication 909, Minimum Tax and Maximum Tax.

Credit or Deduction?

Instead of claiming the credit on Form 1116, you may choose to claim foreign income taxes as an itemized deduction on Schedule A (Form 1040). But you may not take both the credit and a deduction for foreign income taxes in the same tax year.

If you take the credit for any allowable foreign taxes, it applies to all foreign taxes you paid or accrued in the tax year to all foreign countries and U.S. possessions. You may not take any part of the tax as a deduction in the year you take the credit or in any later year.

There is an exception: You may take a deduction for foreign taxes not allowed as a credit because of boycott provisions.

If you want to change your election to take a deduction instead of a credit, or a credit instead of a deduction, you must do so by the end of the period prescribed for making a claim for credit or refund of tax for that tax year.

Method of Reporting

Report all amounts on the form in U.S. dollars except where specified otherwise in Part II, Foreign Taxes Paid or Accrued.

If you have to convert from foreign currency, attach a detailed explanation of how you figured the conversion rate. If you choose to take a credit for taxes paid, the conversion rate is the rate of exchange in effect on the day you paid the foreign taxes. If you choose to take the credit for accrued taxes, the conversion rate is the rate of exchange in effect on the last day of your tax year. However, if the rate of exchange on the date you eventually pay the foreign taxes differs from the rate of exchange on the last day of the tax year, use the rate on the date you pay the tax. If you filed your return, you must make an adjustment in the foreign tax credit on Form 1040X, Amended U.S. Individual Income Tax Return.

Note: *For more information, please get* **Publication 514.**

Specific Instructions

Use a separate Form 1116 to figure the credit for foreign taxes paid or accrued for each of the following:

(1) Nonbusiness interest income.

(2) Dividends from a Domestic International Sales Corporation (DISC) or former DISC.

(3) Foreign oil-related income.

(4) All other income from sources outside the United States (including income from sources within U.S. possessions). Summarize the separate forms in Part IV on one of the forms, but be sure to file all the others as attachments.

Note: *If, for the box you check, you have income from or have paid taxes to more than one foreign country or U.S. possession, you must complete and attach Schedule A (Form 1116).*

Part I.—Taxable Income from Sources Outside the U.S.

Line 1

Include all income that is from sources outside the United States (including high seas income); and that is taxable by the United States whether or not it is taxable by the foreign country or U.S. possession.

Do not include in gross income any earned income excluded on Form 2555, Deduction from, or Exclusion of, Income Earned Abroad. For more information on the exclusion of income earned abroad, please get Publication 54.

On line 1c enter the gain from the sale of capital assets (including gains treated as capital gains under section 1231) only to the extent of foreign source capital gain net income. (This is either capital gain net income from sources outside the United States or from all sources, whichever is less.) "Capital gain net income" is the amount of gains over losses from sales or exchanges of capital assets.

A gain on a sale or exchange of a capital asset that is personal property (including gain under section 1231) will be considered to be from U.S. sources if the sale or exchange occurs outside the country or U.S. possession (a) in which you live, or (b) in which the property (except for stock in a corporation) was used in a trade or business, or (c) in which you got more than 50% of your gross income during the past 3 years. However, such sales will not be considered from within U.S. sources if they are subject to a tax by a foreign country or U.S. possession at the rate of 10% or more of the gain.

Line 2

Do not include deductions and losses related to exempt or excluded income such as earned income excluded on Form 2555.

Enter on lines 2a, b, c, and d all deductions that apply directly to gross income from foreign sources. This may include deductions included in the amount on line 30, Form 1040 (such as expenses incurred for a move to a new principal place of work outside the United States) and line 39, Schedule A (Form 1040) (such as supplies you needed for your job outside the United States).

Enter on line 2e the pro rata share of all other deductions (such as itemized deductions not included in the amounts on lines 2a, b, c, and d, or the zero bracket amount if you are an individual and do not itemize) that you cannot allocate to specific items of income. You can figure this amount by following steps 2e(i) through 2e(vii). For this computation, total foreign source income (line 2e(iv)) and gross income from all sources (line 2e(v)) include:

- amounts exempt or excluded, such as the income of a nonresident alien that is not effectively connected with a trade or business in the United States; or
- foreign source income excluded on Form 2555.

The deduction for personal exemptions is not allowed in figuring taxable income for this purpose. See **Publication 514** for an example.

Note: The Economic Recovery Act of 1981 has made an exception to the treatment of deductions not directly allocable. For taxable years beginning within two years after August 13, 1981, all research and experimental expenditures conducted in the United States should be allocated to U.S. source income.

Part II.—Foreign Taxes Paid or Accrued

You may take the credit for the year you paid or accrued the taxes, depending upon your method of accounting. If you report on the cash basis, you may choose to take the credit for accrued taxes. Do this by checking the accrued box in Part II of Form 1116 or Schedule A (Form 1116). Once you choose to do this, however, you must credit foreign taxes in the year they accrue on all future returns.

Proof of Credits.—You must verify payment or accrual of each item of foreign tax that you take a credit for. Do this by attaching to Form 1116 either a receipt (if you paid the tax) or a copy of the foreign tax return on which the tax is based (if you accrued but did not pay the tax). Include a certified translation if the receipt or return is in a foreign language. IRS may accept secondary evidence of foreign taxes paid or accrued if you can show that it is impossible to provide a receipt, return, or direct evidence of tax withheld.

If you claim a credit for tax accrued but not paid, IRS may have you send a bond on Form 1117, Income Tax Surety Bond, before the credit is allowed.

Part III.—Computation of Foreign Tax Credit

Line 2.—You may carryback 2 years and then forward 5 years the taxes you paid or accrued to any foreign country or U.S. possession (reduced as described below) that are more than the limitation. First apply the excess to the earliest of the 7 years that it may be carried to. Then apply it to the next earliest year, etc. (Section 904 (c).) The 7-year carryback and carryover period may not be extended even if you are unable to claim a credit in one of the intervening years.

If you did not claim a credit in a tax year that the excess is carried to, the excess is considered used in that year in the same way as though you had claimed a credit.

Apply the carryback and carryover provisions separately to the excess for the following:

(a) Nonbusiness interest income.

(b) Dividends from a DISC or former DISC.

(c) Foreign oil-related income.

(d) All other income from sources outside the United States (including income from sources within U.S. possessions).

If you used the per-country limitation in your last tax year beginning before 1976 (1979 for U.S. possession income), special carryback and carryover provisions apply. Contact your local IRS office or the Office of International Operations, Internal Revenue Service, Washington, D.C. 20225 for more information.

Line 4.—You may have to reduce the foreign taxes you paid or accrued by items 1 through 5 below.

(1) Taxes on Income Excluded on Line 52, Form 2555.—To find the amount allocable to income excluded on line 52, multiply the foreign tax paid by a fraction, the numerator of which is income excluded on line 52, Form 2555 and the denominator of which is earned income subject to foreign tax less deductible expenses allocable to the earned income.

If the foreign law charges tax on earned income and some other amount (for example, unearned income or a type of income not subject to U.S. tax), use as the denominator the amount of income subject to foreign tax less deductible expenses allocable to that income.

(2) Taxes on Foreign Oil and Gas Extraction Income.—Reduce taxes paid or accrued on foreign oil and gas extraction income as provided by section 907(a).

(3) Taxes on Foreign Mineral Income.—Reduce taxes paid or accrued on mineral income from a foreign country or U.S. possession if you got a deduction for percentage depletion under section 613 for any part of the mineral income. (Section 901 (e).)

(4) Failure to Provide a Return Required Under Section 6038.—Section 6038 says that U.S. shareholders who control a foreign corporation must provide annual information returns. If by the date required by this section you do not do so, you must reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You must do this each time you fail to provide the information. You must make additional reductions if the failure continues for 90 days or more.

(5) Reduction of Credit for International Boycott Operations.—In general, if you agree to participate in or cooperate with an international boycott, file Form 5713, International Boycott Report. Reduce either the total taxes available for credit or the credit otherwise allowable.

If you can figure the taxes specifically for boycott operations, enter the amount on Part III, line 4, and subtract it from the total taxes available for credit.

However, if you cannot figure the amount of taxes attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor. Subtract the result from the credit otherwise allowable and enter it on Part IV, line 6.

For more information, see Form 5713, and its instructions.

If any of items 1 through 5 above apply to you, attach a separate sheet showing in detail how you figured the reduction. Enter the total of the items to be subtracted from your foreign taxes on line 4.

Line 7.—In general, an "overall foreign loss" is the result you get by subtracting the gross income from sources outside the United States from the total deductions applicable to such income. However, see section 904(f) for certain losses not taken into account and special rules governing dispositions of property used mainly outside the United States in a trade or business. Also see section 904(f) if you received an accumulation distribution from a foreign trust.

If you have an overall foreign loss that offsets U.S. source income, a part of your foreign income is treated as income from sources within the United States in each following tax year. The part that is treated as U.S. source income is the smaller of (a) the amount of overall foreign loss not recaptured in earlier years, or (b) 50% or more of your taxable income from sources outside the United States.

Enter the smaller of (a) or (b) on line 7 and attach your computation.

Part IV.—Summary of Credits from Separate Parts III

Complete this part on only one Form 1116 to summarize the credits you figured on separate Forms 1116. Enter the credits from line 17, Part III of the separate Forms 1116 on lines 1 through 4 of Part IV, as appropriate. File the other Forms 1116 as attachments.

SCHEDULE A (Form 1116)

Department of the Treasury
Internal Revenue Service

Schedule of Foreign Taxable Income and Foreign Taxes Paid or Accrued

Individual, Fiduciary, or Nonresident Alien Individual

▶ Attach to Form 1116
▶ See Instructions for Form 1116

OMB No. 1545-0121

1981

For calendar year 1981, or other tax year beginning , 19 , and ending , 19 .

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each type of income. Check only one box below.

This schedule is being completed for credit for taxes on:

☐ Nonbusiness (section 904(d)) interest income
☐ Dividends from a DISC or former DISC
☐ Foreign oil related income
☐ All other income from sources outside the U.S. (including income from sources within U.S. possessions)

Note: *If, for the box checked above, you have income from or have paid taxes to* **MORE THAN ONE** *foreign country or U.S. possession, you must complete this schedule and attach it to Form 1116.*

Part I Taxable Income from Sources Outside the U.S.

	Foreign Country or U.S. Possession			Total (Add Cols. A, B, and C)
	A	B	C	
Name of Foreign Country or U.S. Possession . . . . ▶				
1 Gross income from sources outside the U.S.:				
a Dividends				
b Gross rents and royalties				
c Foreign source capital gain net income				
d Wages, salaries, and other employee compensation .				
e Business or profession (sole proprietorship) . . .				
f Gross income from trusts and estates				
g Other (including interest—attach schedule) . . .				
h Total (add lines 1a through 1g)				
2 Applicable deductions and losses: (see instructions)				
a Expenses directly allocable to business or profession .				
b Depreciation and depletion directly allocable to rent and royalty income				
c Repairs and other expenses directly allocable to rent and royalty income				
d Other expenses directly allocable to specific income items (attach schedule)				
e Pro rata share of all other deductions not directly allocable:				
(i) Itemized deductions not directly allocable (attach schedule)				
(ii) Other deductions not directly allocable (attach schedule) .				
(iii) Total (Add lines 2e(i) and 2e(ii))				
(iv) Total foreign source income (see instructions). .				
(v) Gross income from all sources (see instructions)				
(vi) Divide line 2e(iv) by line 2e(v)				
(vii) Multiply line 2e(vi) by line 2e(iii)				
f Losses from foreign sources				
g Total applicable deductions and losses (add lines 2a–d, 2e(vii), and 2f)				
3 Taxable income or (loss) from sources outside the U.S. (before recapture of prior year overall foreign losses) (subtract line 2g from line 1h) (Enter total on Form 1116, Part III, line 6)				

Part II Foreign Taxes Paid or Accrued (Attach receipt or copy of return)

Country	1. Credit is claimed for taxes (You must check one.) ☐ Paid ☐ Accrued	2. Foreign Taxes Paid or Accrued						
		In Foreign Currency			In U.S. Dollars			
		Taxes Withheld at Source on:		(c) Other Foreign Taxes Paid or Accrued	Taxes Withheld at Source on:		(f) Other Foreign Taxes Paid or Accrued	(g) Total Foreign Taxes Paid or Accrued Add Cols. (d), (e), and (f)
	Date Paid or Accrued	(a) Dividends	(b) Rents and Royalties		(d) Dividends	(e) Rents and Royalties		
A								
B								
C								
Total—Add lines A through C column (g), and enter total on Form 1116, Part III, line 1								

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1116.

Form **5884**
Department of the Treasury
Internal Revenue Service

Jobs Credit

▶ Attach to your tax return.

OMB No. 1545-0219

1981

Name

Identifying number as shown on page 1 of your tax return

Important.—Your wage and salary deduction must be reduced by the credit on line 9 if you elect to claim this credit. (See the instructions for line 9.)

An electing small business corporation, partnership, estate, or trust that apportions the credit to shareholders, partners, or beneficiaries, completes only lines 1 through 14.

If you are an individual shareholder, partner, beneficiary, or patron, who receives any jobs credits from a small business corporation, partnership, estate, trust, or section 1381(a) cooperative, and have no other jobs credit, skip lines 1 through 9; on line 10, 11, 12, or 13 enter your share of the credits and complete the rest of the form as applicable.

If you receive more than one jobs credit, see instruction for Part I.

Note: *If you are a member of a group of trades or businesses that are under common control or an estate or trust that apportions the jobs credit between itself and its beneficiaries, please see the Specific Instructions before completing the form.*

Part I Jobs Credit

1 Complete the schedule below for qualified first-year wages (up to $6,000 for each employee) paid or incurred during the tax year for services of employees who are certified as members of a targeted group (see instruction for line 1):

(a) Targeted group	(b) Number of employees within each group	(c) Total qualified first-year wages paid or incurred for each group
Targeted group A		
Targeted group B		
Targeted group C		
Targeted group D		
Targeted group E		
Targeted group F		
Targeted group G		
Targeted group H		
2 Total—Add columns (b) and (c)		

3 Enter 30% of the total FUTA wages paid during the 1981 calendar year (see instructions) **3**

4 Enter the smaller of line 2, column (c), or line 3 . . . . **4**

5 Enter 50% of line 4 (see instructions for special limits) **5**

6 Complete the schedule below for qualified second-year wages (up to $6,000 for each employee) paid or incurred during the tax year for services of employees who are certified as members of a targeted group (see instruction for line 6):

(a) Targeted group	(b) Number of employees within each group	(c) Total qualified second-year wages paid or incurred for each group
Targeted group A		
Targeted group B		
Targeted group C		
Targeted group D		
Targeted group E		
Targeted group F		
Targeted group G		
Targeted group H		
7 Total—Add columns (b) and (c)		

8 Enter 25% of line 7, column (c) (see instructions for special limits) **8**

9 Current year jobs credit—Add lines 5 and 8. Enter here and include on Schedule C (Form 1040), line 29(b); Form 1120, line 13b, page 1; or the corresponding line on other returns. members of a group of trades or businesses under common control, electing small business corporations, partnerships, estates and trusts, see Specific Instructions) **9**

10 Shareholder's current year jobs credit from Schedule K–1 (Form 1120S) **10**

11 Partner's current year jobs credit from Schedule K–1 (Form 1065) **11**

12 Beneficiary's current year jobs credit from Schedule K–1 (Form 1041) **12**

13 Credit from a cooperative (see instruction for line 13) **13**

14 Total jobs credit for current year—Add lines 9 through 13. Enter here and in Part II, line 15, on page 2 **14**

For Paperwork Reduction Act Notice, see bottom of page 2.

Part II Tax Liability Limit

15 Current year jobs credit (from Part I, line 14, page 1) **15**

16 a Individuals—Enter amount from Form 1040, line 37, page 2 . . . .
b Estates and trusts—Enter amount from Form 1041, line 26, page 1 . . . .
c Corporations (Form 1120 filers)—Enter amount from Schedule J (Form 1120), line 3, page 3 .
d Other organizations—Enter income tax before credits from your return **16**

17 a Credit for the elderly (individuals only) **17a**
b Foreign tax credit **17b**
c Investment credit **17c**
d WIN credit **17d**
e Credit for political contributions (individuals only) **17e**
f Credit for child and dependent care expenses (individuals only) . . . **17f**
g Possessions corporation tax credit (corporations only) **17g**
h Tax on lump-sum distributions from Form 4972 or Form 5544 . . . **17h**
i Section 72(m)(5) penalty tax (individuals only) **17i**
j Total—Add lines 17a through 17i **17j**

18 Subtract line 17j from line 16 . . . . **18**

19 Tax liability limit—Enter 90% of line 18 (see instructions) **19**

20 Allowed jobs credit for 1981 tax year—Enter smaller of line 15 or line 19. If line 15 does not contain an entry, enter zero. (Section 1381(a) cooperatives: see line 14 instructions) **20**
If you have an unused credit from other years, complete lines 21–23. Otherwise, skip to line 24.

21 Carryback and carryover of unused credits from other years **21**

22 Tax liability limit for unused credits from other years—Subtract line 20 from line 19 . . . . . . **22**

23 Allowed unused credits from other years—Enter smaller of line 21 or 22 . . . . **23**

24 Allowed jobs credit from all sources—Add lines 20 and 23. Enter here and on Form 1040, line 44; Schedule J (Form 1120), line 4(d), page 3; or the appropriate line on other returns **24**

25 Unused credit to carry to other years—Subtract line 19 from the total of lines 15 and 21. (see instructions) **25**

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

1981 **Department of the Treasury**
Internal Revenue Service

Instructions for Form 5884

Jobs Credit

(References are to the Internal Revenue Code)

Tax Highlights

1. Work Incentive (WIN) Employees.—Effective for tax years beginning after December 31, 1981, the jobs credit may be claimed for qualified wages paid or incurred for services of certified WIN employees.

2. Involuntarily Terminated CETA (Comprehensive Employment and Training Act) Employees.—A jobs credit is allowed for qualified wages paid or incurred for services of certified CETA employees first beginning work for an employer after August 13, 1981.

3. 1980–81 Fiscal Year Taxpayers.—If you are filing for a 1980–81 fiscal year for which you are claiming a jobs credit based on wages paid or incurred for services of certified targeted group employees who first began work after August 13, 1981, use the 1981 Form 5884 to figure your jobs credit.

Purpose

Use the 1981 Form 5884 if you had jobs credit employees and take an income tax credit for wages you paid or accrued for them during the tax year.

Mutual savings institutions, regulated investment companies, and real estate investment trusts can take a limited jobs credit. See section 52(f) and the related regulations.

You can take or revoke the jobs credit any time within 3 years from the date your return was due for the year. You can take the credit either on your original return or on an amended return. To revoke your jobs credit after you take it, file an amended return.

For more information, see **Publication 906**, Targeted Jobs, WIN, and Research Credits.

General Instructions

In general, you should figure your jobs credit based on the employee's wages subject to FUTA tax. Special rules apply in the following cases:

(1) You can take the jobs credit for *agricultural employees* who meet the other tests if their services qualify under FUTA as agricultural labor during more than half of any pay period. Base your jobs credit for each agricultural employee on the first $6,000 in wages subject to social security (FICA) tax you paid or accrued for that person during the year.

(2) You can take the jobs credit for *railroad employees* who meet the other tests if their wages qualify under the Railroad Unemployment Insurance Act (RUIA). Base your jobs credit for each employee on the first $500 a month you paid or accrued for that person during the year in wages subject to RUIA tax.

(3) Wages for *youths* in a *cooperative education program* are not subject to FUTA, but include their wages in the amount you use to figure your jobs credit. Base your jobs credit for each youth on the first $6,000 in wages you paid or accrued for that person during the year.

Your credit is based on a percentage of the wages for each employee in the following targeted groups:

- Referrals by a vocational rehabilitation program.
- Economically disadvantaged Vietnam-era veterans.
- Economically disadvantaged youths.
- Supplemental Security Income (SSI) recipients.
- General assistance recipients.
- Youths in a cooperative education program. For wages paid or incurred after December 31, 1981, a youth in a cooperative program must also belong to an economically disadvantaged family.
- Economically disadvantaged ex-convicts.
- CETA employees whose jobs were involuntarily ended (only employees first beginning work after August 13, 1981, can qualify as a member of this group).

In addition, a jobs credit employee must:

(1) have received more than half of his or her wages from you for working in your trade or business;

(2) be certified, as explained below, as belonging to a targeted group;

(3) not be an individual for whom you take a WIN credit; and

(4) not be paid wages for which you were repaid by a Federally funded on-the-job training program.

Effective for employees first beginning work after August 13, 1981, the employee cannot be:

(1) your relative or dependent (see section 51(i)).

(2) your rehired employee if he or she was not a targeted group member when employed earlier.

Certification is done by a local agency, generally an office of the State Employment Security Agency (Jobs Service). The agency gives the employer a form certifying that the employee is in a targeted group.

Before any targeted group member first begins work for an employer, the certification must be completed or the employer must request, in writing, a certification from each certifying agency.

Certification of a Youth In a Cooperative Education Program.—In the case of a youth in a cooperative education program, the certification is completed by the school administering the cooperative program. The school gives the employer a completed Form 6199, Certification of Youth Participating in a Qualified Cooperative Education Program.

Specific Instructions

On lines 1 through 9 figure your credit for wages you paid or accrued. If you have credits only from sources that shared a jobs credit (small business corporations, partnerships, estates, trusts, or cooperatives), skip lines 1 through 9.

Whether or not you complete lines 1 through 9, enter on lines 10 through 13, as applicable, any credits you received from sources that share the credit. Complete the rest of the form to figure the credit to enter on your income tax return.

Controlled groups: The group member proportionately contributing the most first-year wages (or second-year wages if no first-year wages are involved) figures the group credit in Part I and skips Part II.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 8 and enters its share of the group credit

on line 9. Each member then completes lines 10 through 25 on its separate form, entering any unused credit from other years on line 21. Each group member attaches to its Form 5884 a schedule showing how the group credit was divided among all the members. The members share the credit in the same proportion that they contributed qualifying wages.

Part I

Line 1.—Column (a) lists the targeted groups shown on the certification form or Form 6199 that the local certifying agency gave the employer.

The form must designate the targeted group by letter code only. Otherwise, return the certification form to the State agency for correction. Do not contact the Internal Revenue Service for the letter designations.

Column (b).—Enter the number of employees in each targeted group for whom you have first-year wages.

Column (c).—Enter the first-year wages for each group. They are limited to $6,000 of each employee's first-year wages. If you paid first-year wages to any of these employees last year, subtract those wages from the $6,000 limit.

For a vocational rehabilitation employee, count the years that person worked for you from the later of: the date he or she began work or the date his or her rehabilitation plan started. For other jobs credit employees, count the years the person worked for you from the date he or she began work or from January 1, 1979, whichever is later.

For example, if a jobs credit employee started working in your business on September 1, 1980, and you are a calendar year taxpayer, you would have figured your 1980 jobs credit based on the first-year wages you paid between September 1 and December 31, 1980. You would figure your 1981 jobs credit on the rest of the first-year wages you paid between January 1 and August 31, 1981; and on the second-year wages you pay between September 1 and December 31, 1981.

Line 3.—Enter 30% of the total unemployment insurance wages you paid during calendar year 1981. This is usually 30% of line 5, Part I, of the 1981 Form 940.

If you employ agricultural or railroad employees, or youths participating in cooperative education programs, enter on line 3 the total of:

(1) 30% of line 5, Part I, Form 940 for 1981,

(2) 30% of all agricultural employees' qualifying FICA wages (unless these wages are subject to FUTA, and are taken into account in (1) above),

(3) 30% of all railroad employees' qualifying RUIA wages, and

(4) 30% of all cooperative student's qualifying wages. (Qualifying wages are limited to $6,000 for each youth.)

Line 6.—In column (b) enter the number of employees for whom you have second-year wages in each targeted group. In column (c) enter the second-year wages for each group. They are limited to $6,000 for each employee. If you paid second-year wages to any of these employees last year, subtract those wages from the $6,000 limit for that employee.

Line 9.—In general, you must subtract your current year jobs credit on line 9 from the deduction on your return for salaries and wages you paid or owe for 1981. This is true even if you cannot take the full credit this year and must carry part of it back or forward.

An exception is a jobs credit based on salaries and wages you capitalize for depreciation. If you have such a credit, reduce the amount on which you figure depreciation by the part of the current year jobs credit on line 9 that applies to the jobs credit wages you capitalize.

For example, John Oak paid total wages of $10,000 of which $2,000 were qualifying wages. On line 9 of Form 5884 he has $1,000 in current year jobs credit, of which $100 is attributable to the $200 of wages that he capitalizes. John subtracts this $100 from the amount he depreciates on the depreciation schedule for his return. On the line of his return for the salary and wage deduction, he enters the rest of the wages he paid, $9,800, and subtracts the rest of his jobs credit, $900.

Another exception involves the full absorption method of inventory costing. See proposed regulations section 1.280C–1 to reduce your basis in inventory for the targeted jobs credit.

If either exception applies to you, attach a statement to your return to explain why the amount on line 9 differs from the amount you subtract from your salary and wage deduction.

Line 13.—If you belong to a cooperative that has an excess jobs credit, the cooperative should have given you a statement that shows your share of the excess. On line 13 enter your total excess jobs credit from all cooperatives to which you belong.

Line 14.—*Estates and trusts:* The jobs credit on line 14 is shared among the beneficiaries and the estate or trust itself in proportion to the income each received from the estate or trust. In the margin to the right of line 14, the estate or trust identifies its own part and the beneficiaries' part of the total credit. The estate or trust then completes Part II to figure the jobs credit to take on its Form 1041. It attaches to its Form 5884 a schedule showing how the total credit was divided.

Small business corporations and partnerships: Prorate the jobs credit on line 14 among those who were shareholders on the last day of the corporation's tax year or those who were partners at the time the qualifying wages were paid. The small business corporation or partnership will attach Form 5884 to its return and, on Schedule K–1 of it's return show the credit for each shareholder or partner.

Cooperatives: Most tax-exempt organizations cannot take the jobs credit; but a cooperative described in section 1381(a) takes the jobs credit to the extent it has tax liability. Any excess is shared among its patrons.

If the cooperative has unused jobs credits from tax years that ended before November 1, 1978, the cooperative can carry them back or forward. It cannot share them among its patrons.

Part II

Line 17.—Other credits and taxes may limit your jobs credit. On line 17 enter the amounts that apply to you. Add them and enter the total on line 17j.

Line 19.—The jobs credit you take for your 1981 tax year cannot be more than 90% of your tax for the year. The tax liability limit applies to the sum of current and carryover jobs credits. You must make an entry on line 19 before figuring your allowed credit on lines 20 through 24.

Line 25.—If the tax liability limit (line 19) prevents your using your full jobs credit for your 1981 tax year, you can carry the excess back 3 years and forward 15 years, up to the tax liability limit for each year. Apply any unused credit first to the earliest year to which it may be carried, and then to each later year in order.

If you have a carryover credit (new jobs credit or targeted jobs credit) from prior years that is in excess of the line 22 limit, you can carry it forward for 15 years from the tax year the credit was earned. Unused credits (including new jobs credit) are limited to the tax liability for the tax year to which the credits are carried.

Form **5695**
Department of the Treasury
Internal Revenue Service (0)

Residential Energy Credit

▶ Attach to Form 1040. ▶ See instructions on back.

OMB No. 1545–0214
1981
33

Name(s) as shown on Form 1040

Your social security number

Enter in the space below the address of your principal residence on which the credit is claimed if it is different from the address shown on Form 1040.

If you have an energy credit carryover from a previous tax year and no energy savings costs this year, skip to Part III, line 24.

Part I Fill in your energy conservation costs (but do not include repair or maintenance costs).

1 Was your principal residence substantially completed before April 20, 1977? ▶ ☐ Yes ☐ No

Note: You MUST answer this question. Failure to do so will delay the processing of your return. If you checked the "No" box, you CANNOT claim an energy credit under Part I and you should not fill in lines 2 through 12 of this form.

2 a Insulation	2a		
b Storm (or thermal) windows or doors	2b		
c Caulking or weatherstripping	2c		
d A replacement burner for your existing furnace that reduces fuel use	2d		
e A device for modifying flue openings to make a heating system more efficient	2e		
f An electrical or mechanical furnace ignition system that replaces a gas pilot light	2f		
g A thermostat with an automatic setback	2g		
h A meter that shows the cost of energy used	2h		
3 Total (add lines 2a through 2h)	3		
4 Enter the part of expenditures made from nontaxable government grants and subsidized financing	4		
5 Subtract line 4 from line 3	5		
6 Maximum amount of cost on which credit can be figured	6	$2,000	00
7 Enter the total energy conservation costs for this residence from your 1978, 1979, and 1980 Form 5695, line 2	7		
8 Subtract line 7 from line 6	8		
9 Enter the amount of nontaxable government grants and subsidized financing entered on line 4	9		
10 Subtract line 9 from line 8. If zero or less, do not complete the rest of this part	10		
11 Enter the amount on line 5 or line 10, whichever is less	11		
12 Enter 15% of line 11 here and include in amount on line 23 below	12		

Part II Fill in your renewable energy source costs (but do not include repair or maintenance costs).

13 a Solar ______ 13 b Geothermal ______ 13 c Wind ______ Total ▶	13d		
14 Enter the part of expenditures made from nontaxable government grants and subsidized financing	14		
15 Subtract line 14 from line 13	15		
16 Maximum amount of cost on which credit can be figured	16	$10,000	00
17 Enter the total renewable energy source cost for this residence from your 1978 Form 5695, line 5 and your 1979 and 1980 Forms 5695, line 9	17		
18 Subtract line 17 from line 16	18		
19 Enter the amount of nontaxable government grants and subsidized financing entered on line 14	19		
20 Subtract line 19 from line 18. If zero or less, do not complete the rest of this part	20		
21 Enter the amount on line 15 or line 20, whichever is less	21		
22 Enter 40% of line 21 here and include in amount on line 23 below	22		

Part III Fill in this part to figure the limitation

23 Add lines 12 and 22. *If less than $10, enter zero*	23		
24 *Enter your energy credit carryover from a previous tax year.* **Caution**—Do not make an entry on this line if your 1980 Form 1040, line 47, showed an amount of more than zero	24		
25 Add lines 23 and 24	25		
26 Enter the amount of tax shown on Form 1040, line 37	26		
27 Add lines 38 through 44 from Form 1040 and enter the total	27		
28 Subtract line 27 from line 26. If zero or less, enter zero	28		
29 Residential energy credit. Enter the amount on line 25 or line 28, whichever is less. Also, enter this amount on Form 1040, line 45. Complete Part IV below if this line is less than line 25	29		

Part IV Fill in this part to figure your carryover to 1982 (Complete only if line 29 is less than line 25)

30 Enter amount from Part III, line 25	30		
31 Enter amount from Part III, line 29	31		
32 Credit carryover to 1982 (subtract line 31 from line 30)	32		

For Paperwork Reduction Act Notice, see instructions on back.

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Instructions

Two energy credits make up the residential energy credit, each with its own conditions and limits. These credits are based on: (1) Costs for home energy conservation, and (2) Costs for renewable energy source property.

The credit is based on the cost of items installed in your principal residence after April 19, 1977, and before January 1, 1986.

Purpose.—Use this form to figure your residential energy credit if you had qualified energy saving items installed in your principal residence. The instructions below list conditions you must meet to take the credit. If you have an energy credit carryover from the previous tax year and no energy saving costs this year, skip to Part III of the form. Attach Form 5695 to your tax return. For more information, please get **Publication 903,** Energy Credits for Individuals.

What is your principal residence?—To qualify as your principal residence, your residence must be the home in the United States where you live (you may own it or rent it from another person).

A summer or vacation home does not qualify.

For energy conservation items to qualify, your principal residence must have been substantially completed before April 20, 1977. A dwelling unit is considered substantially completed when it can be used as a personal residence even though minor items remain unfinished.

Special Rules.—If you live in a condominium, occupy a dwelling unit jointly, or share the cost of energy property, see **Publication 903** for more details.

What are energy saving items?—You can take the credit for energy conservation and renewable energy source items.

Energy conservation items are limited to:

- insulation (fiberglass, cellulose, etc.) for ceilings, walls, floors, roofs, water heaters, etc.
- storm (or thermal) windows or doors for the outside of your residence.
- caulking or weatherstripping for windows or doors for the outside of your residence.
- a replacement burner for your existing furnace that reduces fuel use. The burner must replace an existing burner. It does not qualify if it is acquired as a component of, or for use in, a new furnace or boiler.
- a device for modifying flue openings to make a heating system more efficient.
- an electrical or mechanical furnace ignition system that replaces a gas pilot light.
- a thermostat with an automatic setback.
- a meter that shows the cost of energy used.

To take the credit for an energy conservation item, you must:

- install the item in your principal residence which was substantially completed before April 20, 1977,
- be the first one to use the item, and
- expect it to last at least 3 years.

The maximum credit for energy conservation items cannot be more than $300 ($2,000 × 15%) for each principal residence.

Renewable energy source items include solar, wind, and geothermal energy items that heat or cool your principal residence or provide hot water or electricity for it.

Examples of solar energy items that may qualify include:

- collectors,
- rockbeds,
- heat exchangers, and
- solar panels installed on roofs (including those installed as a roof or part of a roof).

An example of an item that uses wind energy is a windmill that produces energy in any form (usually electricity) for your residence.

To take the credit for a renewable energy source item, you must:

- be the first one to use the item, and
- expect it to last at least 5 years.

The maximum credit for renewable energy source items cannot be more than $4,000 ($10,000 × 40%) for each principal residence.

What items are NOT eligible for the energy credit?—Do not take credit for:

- carpeting;
- drapes;
- wood paneling;
- wood or peat-burning stoves;
- hydrogen fueled residential equipment;
- siding for the outside of your residence;
- heat pump (both air and water);
- fluorescent replacement lighting system;
- replacement boilers and furnaces; and
- swimming pools used to store energy.

Federal, State, or local government nontaxable grants and subsidized financing.—Qualified expenditures financed with nontaxable Federal, State, or local government grants cannot be used to figure the energy credit. Also, if Federal, State, or local government programs provide subsidized financing for any part of qualified expenditures, that part cannot be used to figure the energy credit. You must reduce the expenditure limits on energy conservation and renewable energy source property for a dwelling by the part of expenditures financed by Federal, State, or local government subsidized energy financing, as well as by the amount of nontaxable Federal, State, or local government grants used to purchase conservation or renewable energy source property.

Figuring the credit for more than one principal residence.—You can take the maximum credit for each principal residence you live in. If you use all of your credit for one residence and then move, you may take the maximum credit amount on your next residence.

To figure your 1981 energy credit for more than one principal residence:

(1) Fill out Part I or II on a separate Form 5695 for each principal residence.

(2) Enter the total of all parts on line 23 of one of the forms.

(3) In the space above line 23, write "More than one principal residence."

(4) Attach all forms to your return.

Caution: *You should keep a copy of each Form 5695 that you file for your records. For example, if you sell your principal residence, you will need to know the amount of the credit claimed in prior tax years. If the items for which you took the credit increased the basis of your principal residence, you must reduce the basis by the credit you took.*

If the credit is more than your tax.—If your energy credit for this year is more than your tax minus certain other credits, you can carry over the excess energy credit to the following tax year.

Specific Instructions

Part I, lines 2a through 2h.—Enter your energy conservation costs (including expenditures made with nontaxable government grants and subsidized financing) only for this tax year. Count the cost of the item and its installation in or on your principal residence. Do not include the cost of repairs or maintenance for energy conservation items.

Part I, line 4.—Enter the amount of nontaxable government grants and subsidized financing used to purchase the energy items. If you do not know the amount, check with the government agency that gave you the grant or subsidized financing.

Part I, line 7.—Enter your total energy conservation costs from 1978, 1979, and 1980 for this principal residence. If you had energy conservation costs in the previous tax year but could not take a credit because it was less than $10, enter zero.

Part I, line 9.—Enter the part of nontaxable government grants and subsidized financing received under Federal, State, or local programs to purchase energy items. You must use the amounts received under these programs to reduce the maximum amount of cost used to figure the credit. If you do not know the amount of the nontaxable grant, check with the government agency which gave you the grant or subsidized financing.

Part II, lines 13a through 13d.—Enter your renewable energy source costs (including expenditures made with nontaxable government grants and subsidized financing) only for this tax year. Do not include the cost of repairs or maintenance for renewable energy source items.

Part II, line 14.—See Part I, line 4 for explanation.

Part II, line 17.—Enter your total renewable energy source costs from 1978, 1979, and 1980 for this principal residence. If you had renewable energy source costs in the previous tax year but could not take a credit because it was less than $10, enter zero.

Part II, line 19.—See Part I, line 9 for explanation.

Part III, line 24.—If line 47 of your 1980 Form 1040 is zero or less and on your 1980 Form 5695, line 20 is less than line 17, enter the difference between line 20 and line 17 on line 24 of this year's form. Exception—If the alternative minimum tax applied, see **Publication 909,** Minimum Tax and Maximum Tax.

Part IV.—Complete this part only if line 29 is less than line 25. You can carryover the amount entered on line 32 to your next tax year. Exception—If the alternative minimum tax applies, see **Publication 909.**

U.S.GPO:1981-0-343-210 EI# 430814328

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 13: Credits

Child and Dependent Care Credit:

1. Who are the three types of qualifying individuals?
   a.
   b.
   c.

2. What are the limitations on employment-related expenses?
   a.
   b.

3. What are the four major qualifications for Child and Dependent Care Credit?
   a.
   b.
   c.
   d.

4. A divorced woman who has custody of her children can take child care credit even though she cannot claim her children as dependents. True or False?

5. Disabled dependent and disabled spouse care expenses may be paid to a nursing home. True or False?

6. Anna Brown is single, gainfully employed and maintains a household for herself and her dependent mother. Anna had earned income of $12,000 for the year with a tax liability of $1,307. Her mother was disabled from June 1 to December 31; the mother resided in Anna's home for the entire year. Anna employed a housekeeper, Mrs. Jones (SS# 679-77-5544) for the months her mother was disabled to enable her to continue working. She paid Mrs. Jones $300 for dependent care plus $200 for household services for a total of $500 each month. FICA was paid July 31; $33.25, October 31: $99.75, and January 31 of the next year: $99.75. (This is Anna's share of the FICA tax.) Anna's federal ID# is 93-876876. Complete form 2441. Oregon Credit? $______________

7. Bill Smith is married, gainfully employed, and files a joint return with his wife Mary. His earnings for the year are $13,000 with tax liability of $1,238. An accident to his wife caused her to be incapable of sel-care for the entire tax year. To enable Bill to continue working, he hired and paid Mrs. Davis (SS# 444-77-8899) $4,500 to look after his wife. FICA taxes of $299.25 were paid during the year. Bill's federal ID# is 93-4445556. Complete Form 2441. Oregon Credit? ___________

8. Mary Jones is married, gainfully employed and files a joint return with her husband, Dave. They have two dependent children; Joe (born 7/2/74) and Flo (born 8/2/73). Mary's earnings for the year are $15,000 with tax liability of $1,238. Dave was a full-time student at the University from January 1 to May 31. After summer vacation Dave did not return to school but was unemployed for the balance of the year. Mary paid Sherry Keeper SS# 888-99-5544 $450 a month from January 2 to May 31 to look after the children in their home. Mary paid FICA tax of $149.62. Her federal ID# is 93-7777888. Complete Form 2441. Oregon Credit? $_______________

Credit For The Elderly:

9. What is the initial amount on Schedule R for:
   a. Single person _________
   b. Married joint both over 65 ________
   c. Married joint one 66 and the other 64 _________
   d. Married separate who did not live with spouse for the entire year _________

10. What is the initial amount on Schedule RP for:
    a. Single person ________
    b. Married couple (joint return) 50 & 57 ________
    c. Married couple (joint return) ages 59 & 57, wife had income from public retirement system __________
    d. Married separate, age 60 who did not live with spouse all year _________

11. On Schedule R you have to reduce the initial amount when your AGI reaches:
    a. Single _________
    b. Married filing joint ________
    c. Married filing separate ________

12. What is considered retirement income for an individual under 65 on Schedule RP?_________

13. What is considered retirement income on Schedule RP for an individual 65 or older? ________

14. On Schedule R or RP which pensions reduce your initial amount?
a.
b.

15. Earned income on Schedule RP includes?

16. On Schedule RP earned income reduces your initial amount if:
a. Under age 62, it is over _______
b. Age 62 to 72, it is over _______

17. Mary N. Sims, age 62, is a single retired federal employee. Her retirement pension this year is $7,200, fully taxable. Mary has a part-time job that pays her $1,500. Her tax liability is $915. Compute her credit on Schedule R or RP. What is her Oregon credit? $________

18. John N. Baker is 67 years of age and his wife Jane N. is 59. John and Jane file a joint return on Form 1040. Their adjusted gross income is $8,500 and John received $1,200 from social security. The tax liability on their return is $291. Compute their Credit for the Elderly. What is their Oregon Credit? $__________

19. Bill N. Poley is single and 66 years of age. His income last year is as follows: wages: $6,700; pension fully taxable: $1,400; social security: $1,200. Tax liability before other credits is $616. Compute his Credit for the Elderly. What is his Oregon Credit? $__________

20. Don C. and June B. Daley (age 63 and 62) filed a joint return. He receives $1,800 from a union pension, $2,600 in interest, and $1,000 in social security. She is a federal civil service retiree. She received $3,000 (fully taxable), from a civil service pension. Their federal tax liability is $277. Compute their Credit for the Elderly. What is their Oregon Credit? ___________

21. Marvin A. and Roberta B. Dye, age 67 and 63, filed a joint return last year. Their income is as follows: wages $7,500; dividends (after exclusion): $1,800; social security; (H) $1,000; (W) $1,000. Their tax liablility before other credits is $418. Compute their Credit for the Elderly. What is their Oregon Credit? $___________

22. Mary Maple, age 62 and single, is a retired state employee. Her retirement annuity this year is $6,000 and fully taxable. She has a part-time job that pays her $3,000 a year. She has no social security payments. The tax computation total on Form 1040 is $972. Figure her credit on Schedule RP. What is her Oregon Credit?______

Investment Credit and Recapture:

23. A farmer purchsed the following assets from Februrary t Novemeber.

	Total Cost
Truck (new)	$13,000
Tractor (used)	6,000
Cows, 10 Breeders	6,000

The amount on line 37, From 1040 is $1,100. Compute this farmer's investment credit using Form 3468.

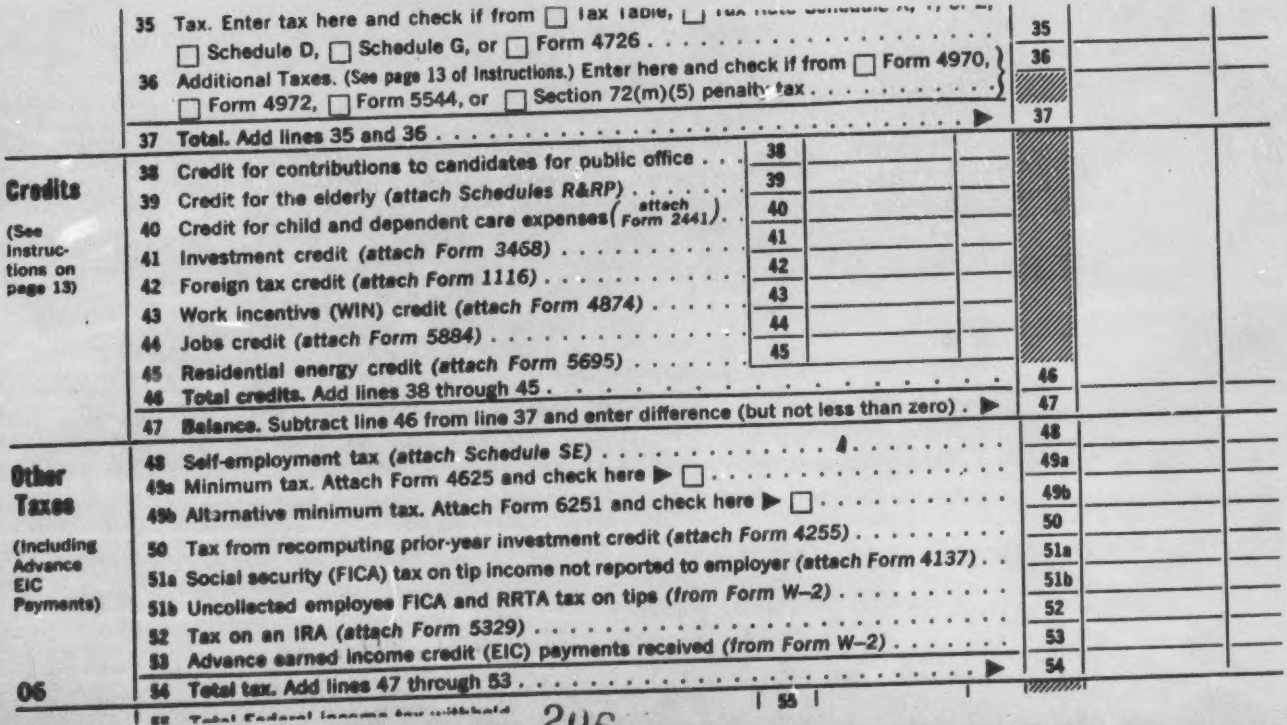
24. Taxpayer purchased new tractor with a cost of $10,000. The taxpayer also purchased a new truck that cost $3,300. Both assests were purchased on February 4. Compute the investment credit using Form 3468. Tax liability is $1,350.

25. A new truck purchased September 1, 1975 was traded on December 3, 1981. The truck traded had a cost of $6,000 and a useful life of 8 years. An investment credit of $600 was taken on the truck in 1975. Compute the investment tax credit recapture and complete From 4255.

26. A taxpayer's return shows these entries:

Income tax.	$710
Self-Employment Tax.	513
Credit for the Elderly. .	80
Investment Credit.	1,000

Complete Form 1040 to determine the taxpayer's tax liability.



	35	Tax. Enter tax here and check if from ☐ Tax Table, ☐ ☐ Schedule D, ☐ Schedule G, or ☐ Form 4726		35	
	36	Additional Taxes. (See page 13 of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, ☐ Form 5544, or ☐ Section 72(m)(5) penalty tax		36	
	37	**Total.** Add lines 35 and 36 . . . . ▶		37	
Credits (See instructions on page 13)	38	Credit for contributions to candidates for public office . . .	38		
	39	Credit for the elderly *(attach Schedules R&RP)*	39		
	40	Credit for child and dependent care expenses*(attach Form 2441)*. .	40		
	41	Investment credit *(attach Form 3468)*	41		
	42	Foreign tax credit *(attach Form 1116)*	42		
	43	Work incentive (WIN) credit *(attach Form 4874)*	43		
	44	Jobs credit *(attach Form 5884)*	44		
	45	Residential energy credit *(attach Form 5695)*	45		
	46	**Total credits.** Add lines 38 through 45		46	
	47	**Balance.** Subtract line 46 from line 37 and enter difference (but not less than zero) . ▶		47	
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*		48	
	49a	Minimum tax. Attach Form 4625 and check here ▶ ☐		49a	
	49b	Altarnative minimum tax. Attach Form 6251 and check here ▶ ☐		49b	
	50	Tax from recomputing prior-year investment credit *(attach Form 4255)*		50	
	51a	Social security (FICA) tax on tip income not reported to employer *(attach Form 4137)* . .		51a	
	51b	Uncollected employee FICA and RRTA tax on tips *(from Form W–2)*		51b	
	52	Tax on an IRA *(attach Form 5329)*		52	
	53	Advance earned income credit (EIC) payments received *(from Form W–2)*		53	
06	54	**Total tax.** Add lines 47 through 53 . . . . ▶		54	
	55	Total Federal income tax withheld	55		

27. What is the purpose of the foreign tax credit? Who may take the tax credit?

28. Foreign taxes on what types of income qualify for the tax credit? Generally, what foreign taxes would not qualify for tax credit?

29. What are the limits for qualified first and second-year wages in computing the targeted job credit?

30. How is the targeted jobs credit figured?

31. Figure the targeted jobs credit for 1981, based on the following: On April 1, 1980, Max Michaels, a calendar-year taxpayer, hired David Brown who is a member of a targeted group. In 1980 Max paid David $5,000 in wages. Assume that the 30% FUTA wage limitation does not apply. For services from January 2, 1981 through March 31, 1982, Max paid David $5,000 in wages.

32. How is the employer's deduction for wages paid or incurred affected by the amount of the targeted jobs credit allowed?

33. Name the two distinct energy credits that are included in the residential energy credit and state how each credit is figured.

SESSION 14

CAPITAL GAINS AND LOSSES, SALES AND EXCHANGES,
(Including BAD DEBTS AND LOSSES)
Schedule D

Reading Assignment: Publication 17, Ch. 27;29;31;32
Publication 334, Ch. 24;25;26

A. VOCABULARY

Amount realized
Bad debt
Capital asset
Capital loss carryover
Deprecialbe property
Expense of sale
Holding period
Long-term
Personal-use property
Short-term
Short sales
Wash sales

B. INTERVIEW QUESTIONS:

1. Have you sold any assets this year?

2. Have you any uncollectible personal notes that may be deducted as a personal bad debt?

Capital Gains and Losses

A capital gain is a tax law concept created to provide some form of preferential treatment for gains on the sale or exchange of capital assets. The concept puts a ceiling on the amount of tax on the gain from the sale or exchange of a capital asset. The theory is that capital assets are normally held for appreciation in value over a long period of time. Then, when the gain is realized, all of the gain from appreciation in value over the years is taxed in one year. Strict application of the graduated tax structure would then mean that the tax in the year of disposition would be much greater than it would have been had the appreciation been taxed in piecemeal fashion over the years in which it took place. Accordingly, Congress provided two general areas of relief:

1) The capital gains deducted for individuals; and
2) The alternative tax computation for individuals and corporations.

A capital loss is the loss on the sale or exchange of a capital asset. It is given special but less advantageous treatment than ordinary losses. In general, it was determined that your investment activity in capital assets should be treated separately from your regular income-producing activities, whether they resulted in a gain or a loss. Capital losses are netted against capital gains, and if the losses exceed the gains, then only a part of the loss may be applied against ordinary income for individuals. For corporations, no amount of capital loss may be used to offset ordinary income.

Capital Assets

The tax law describes capital assets by specifically listing properties that are not capital assets, but does not list properties that are capital assets. Thus, by eliminating properties that are not capital assets, capital assets include property you own for personal purposes, pleasure, or investment. This includes your home, household furnishings, your car used for pleasure or commuting, and stocks and bonds held in your personal account.

Capital assets do not include the following:

1) Stock in trade or other property properly includible in inventory or held primarily for sale to customers in the ordinary course of a trade or business;
2) Accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered, or from the sale of any of the properties described in (1), or for services rendered as an employee;
3) Depreciable property used in your trade or business (even though fully depreciated);
4) Real property used in your trade or business;
5) A copyright, a literary, musical or artistic composition, a letter or memorandum, or similar property that you created by your personal efforts; that was prepared or produced (in the case of a letter, memorandum, or similar property) for you; or that you acquired under circumstances (for example, by gift) entitling you to the basis of a person who created the property or for whom it was prepared or produced;
6) U.S. Government publications that you receive from the government free or for less than the public sales price, or that you acquired under circumstances entitling you to the basis of someone who received the publications free or for less than the public sales price; and
7) Short-term obligations of federal, state, and municipal governments issued on a discount basis and payable without interest at a fixed maturity date not more than one year from the date of issue.

For a more complete description of specific capital assets, see Publication 17. This discussion will be limited to the tax treatment of capital gains and losses.

Holding Period

Capital gains and losses are either long-term or short-term depending on the length of time the asset was held. Only long-term capital gains receive preferential tax treatment. Property must be held more than one year to qualify as a long-term capital asset. For commodity futures transactions, the long-term holding period is more than six months.

The holding period begins the day following the day the property was acquired. The day the property is disposed of is considered part of the holding period. Therefore, you begin counting the day following the day you acquire the property. The same day of each succeeding month is the beginning of a new month regardless of the number of days in the preceding month.

If you acquire property on the last day of any calendar month, regardless of whether the month has 31 days, your holding period will begin on the first day of the following month.

Example 1. You bought stock on February 28, 1979. You would have to hold this stock until March 1, 1980, in order to have a long-term capital gain. Even though 1980 is a leap year, there was not a February 29 in 1979 and your first holding day was March 1, 1979.

Example 2. You purchased a commodity futures contract August 28, 1980. You begin counting your holding period August 29. The earliest date for your six-month long-term holding period would be March 1, 1981. This is because there is not a corresponding date in February so you must use the first day of the next month.

Worthless corporate stocks or securities with interest coupons or in registered form, which become worthless during the tax year, are treated as though they were capital assets sold on the last day of the tax year. To determine whether they are long-term or short-term capital assets, the holding period of the stocks or securities extends from the date you bought them to the last day of the year they became worthless.

Purchases or sales through stock exchanges. When purchases or sales are made through an established securities market, there are always two dates involved; the trade and the settlement date. The trade date is the date the transaction is entered into and the settlement date is the date payment is to be made and stock delivered. The settlement date is usually five business days following the trade date.

In applying the holding period rules to stock transactions on a stock exchange, the period begins the day following the trade date and ends on the date of sale (trade date).

For an accrual basis taxpayer any gain or loss on disposition of stock is reportable as of the trade date. For a cash basis taxpayer, a loss is deductible as of the trade date. However, where there is a gain, the gain is includible in income as of the settlement date.

The reason for this different treatment is that an accrual basis taxpayer always recognizes income or loss when the event occurs. A cash basis taxpayer recognizes income only when it is received. A loss is recognized immediately by a cash basis taxpayer since no income will be received at the settlement date. Any return of capital received at the settlement date is not income.

Example. A cash basis calendar year taxpayer entered into a contract to sell stock on December 26, 1979. Delivery of the stock was made and payment received on January 3, 1980. If the taxpayer incurred a loss on the transaction, the loss would be deductible on the taxpayer's 1979 return. If the taxpayer had a gain, the gain would be includible in the taxpayer's 1980 return.

It is for this reason that many taxpayers scrutinize their stock holdings at the end of the year. They want to plan in which year to take their gains or losses.

Gains or Losses

To determine your capital gains or losses, you must first separate your transactions into short-term gains and losses and long-term gains and losses. Your total gain or loss is then computed by adding your net short-term and long-term gains or losses together or subtracting your total losses from your total gains.

Example 1. John had the following capital asset transactions during the year:

Short-term gain	$ 500	
Short-term loss	(1,500)	
Net short-term loss		($1,000)
Long-term gain	$800	
Long-term loss	(300)	
Net long-term gain		500
Net loss		($ 500)

John has a net loss for the year of $500. The loss is all short-term since his short-term losses exceeded his long-term gains.

Example 2. Joan had the following capital asset transactions for the year:

Short-term gain	$1,500	
Short-term loss	(2,000)	
Net short-term loss		($ 500)
Long-term gain	$2,000	
Long-term loss	(500)	
Net long-term gain		1,500
Net gain		$1,000

Joan has a net capital gain for the year of $1,000. The gain is all long-term since her long-term gains exceeded her short-term losses.

Example 3. Fred had the following capital asset transactions for the year:

Short-term gain	$1,000	
Short-term loss	(500)	
Net short-term gain		$ 500
Long-term gain	$1,500	
Long-term loss	(800)	
Net long-term gain		700
Net gain		$1,200

Fred has a net capital gain for the year of $1,200. This gain consists of both short-term and long-term gains and only the long-term gains receive preferential tax treatment.

Net capital gain. If you have a net capital gain for the year, you must separate the long-term gain from the short-term gain. The total amount of the short-term gain is included in income. Only 40% of the long-term gain is included in income. Therefore, in Example 2, Joan would include $400 in income for her total capital asset transactions for the year. In Example 3, Fred would include $780 in income. This would be $500 short-term gain plus $280 of the long-term gain.

Capital loss. If you have a capital loss for the year, you must separate your net short-term loss from your net long-term loss. Net short-term loss is deductible from income in full while only 50% of net long-term loss is deductible.

Limitation. There is a limitation on the amount of a capital loss deduction that can be used to reduce other income in any tax year. This is the lesser of:

1) Your actual capital loss;
2) Your taxable income for the year reduced (but not below zero) by the zero bracket amount and figured without regard to either capital gains and losses or deductions for personal exemptions; or
3) $3,000. (If you file a separate return, you are limited to $1,500 of your loss. You may not use any part of your spouse's loss.)

Example 1. Betty is single and had an income of $30,000 last year. She had the following capital asset transactions for the year:

Short-term gain	$ 200	
Short-term loss	(1,200)	
Net short-term loss		($1,000)
Long-term gain	-0-	
Long-term loss	($4,000)	
Net long-term loss		(4,000)
Capital loss		($5,000)

Betty is allowed the net short-term loss in full ($1,000) and 50% of the net long-term loss ($2,000) for a total deduction of $3,000.

Example 2. Bob is filing a joint return. He retired a year ago and the pension he received last year was not taxable. His total taxable income, without regard to his capital loss, was $5,000. His capital asset transactions for the year were:

Net short-term loss	($3,500)
Net long-term gain	500
Capital loss	($3,000)

Bob must first reduce his income by the joint zero bracket amount. The limitation on his capital loss deduction is $1,600 ($5,000 − $3,400).

Capital Loss Carryover

If your capital loss is more than the limitation for your capital loss deduction, you may carry over the excess loss to later years until it is completely absorbed. When carried over, the loss will retain its original character as short-term or long-term. That is, a short-term capital loss carried over from a previous year will offset short-term gains of the current year before it offsets long-term gains of the current year.

All losses are carried over to the next year in full as though they had occurred in that year.

Short-term loss applied first. If you have both short-term and long-term capital losses, the short-term losses are always applied first even if they were incurred after the long-term losses.

Example. Mary's income for 1978 through 1980 was in excess of $30,000. Her capital asset transactions for these years were:

1978			
Net short-term loss	($10,000)		
Net long-term loss	(6,000)		
Capital loss	($16,000)		
Deductible loss (all short-term)			($3,000)
1979			
Short-term gain	$3,000		
1978 carryover loss	(7,000)		
Net short-term loss		($4,000)	
Long-term gain	$1,000		
1978 carryover loss	(6,000)		
Net long-term loss		(5,000)	
Net loss		($9,000)	
Deductible loss (all short-term)			($3,000)
1980			
Short-term gain	$2,000		
1979 carryover loss	(1,000)		
Net short-term gain		$1,000	
Long-term gain	$2,000		
1979 carryover loss	(5,000)		
Net long-term loss		(3,000)	
Net loss		($2,000)	
Deductible loss (50% of long-term loss)			($1,000)

Short Sales

There are many ways to buy and sell securities. One of these methods is referred to as a short sale. Usually, a short sale occurs when you sell a security that you do not own. You could also sell a security that you own but choose not to deliver at the time of sale. In either case, you must borrow the security that you sell.

There are many reasons for people selling securities short, but the most common reason is that the seller anticipates that the price of the security will drop. The seller's broker borrows the stock or other security from another source and sells it at the current price. At a later date, the seller buys an equal amount of stock and returns it to the lender. If the price of the stock dropped during this period, as the seller anticipated, the seller would make a profit—the difference between the selling price and the purchase price.

A short sale can be viewed as the reverse of the more common transaction where a person buys a stock and holds it in anticipation of a rise in price. If the price rises during this period, the buyer makes a profit—the difference between the purchase price and the selling price.

The principal difference between these transactions and their tax treatment centers on the ownership of the security. In the more common purchase and sale transaction, the taxpayer buys, owns, and holds the property for a period of time. In a short sale, the taxpayer sells borrowed property that is later replaced with the purchase.

Holding period. The holding period for a short sale usually is determined by the amount of time the seller actually holds the security that is eventually delivered to the lender. When the security is delivered to the lender the short sale is closed. Usually, this holding period is less than one day (the purchase of and delivery to the lender) and the seller has a short-term capital gain or loss.

If the seller holds substantially identical securities to those sold short, special holding rules apply to the identical securities held if:

1) This property was held one year or less at the date of the short sale, or
2) If it was acquired after the short sale and on or before the closing of the short sale.

If either of these two conditions apply, then the holding period for these securities will be considered to begin on the date of the closing of the short sale or the date these securities were sold, whichever comes first.

Example. On February 1, 1979, you bought 100 shares of Able Corporation stock for $1,000. On June 30, you sold short 100 shares of similar Able stock for $1,600. On November 1, 1979, you purchased 100 more shares of Able stock for $1,800 and used them to close the short sale. On this short sale you realized a $200 short-term capital loss.

On February 2, 1980, you sold for $1,800 the stock originally bought on February 1, 1979. Although you have actually held this stock for more than one year, by application of (2), the holding period is considered to have begun on November 1, 1979, the date of the closing of the short sale. The $800 gain realized on the sale is therefore a short-term capital gain.

Treatment of losses. If, on the date of a short sale of a capital asset, you have held substantially identical property for more than one year, any loss realized on the short sale will be treated as a long-term capital loss, even though the property used to close the sale had been held for one year or less.

Wash Sales

Wash sale is the terminology used to describe a particular sale situation. This occurs when you sell securities and within 30 days before or after the date of sale (a 61 day period) you acquire substantially identical securities. In other words, no real change of ownership has occurred.

Losses from wash sales or exchanges of stocks or securities are not deductible. However, the gain from these sales is taxable. Commodity futures contracts are not stock or securities and are not covered by the wash sale rule.

A wash sale occurs when you sell stocks or securities and within 30 days before or after the sale you buy, acquire in a taxable exchange, or acquire a contract or option to buy, substantially identical stock. If you sell stock, and your spouse, or a corporation controlled by you, buys substantially identical stock, you also have a wash sale. The disallowed loss is added to the basis of the newly acquired stock or security.

Example 1. You bought 100 shares of X stock for $1,000. At a later date you sell these shares for $750 and within 30 days of the sale you acquire 100 shares of the same stock for $800. Your loss of $250 on the sale is not deductible. However, the disallowed loss ($250) is added to the cost of the new stock ($800) to get the basis of the new stock ($1,050).

Example 2. You are an employee of a corporation which has an incentive compensation plan. Under this plan, you are given 10 shares of the corporation's stock as a bonus award. The fair market value of the stock is included in your gross income as additional compensation. You later sell these shares at a loss. If you receive another bonus award of substantially identical stock within 30 days of the sale, your loss is not deductible.

Quantity sold exceeds purchase. If the amount of substantially identical stock or securities you buy within 30 days before or after the sale is less than the amount of stock or securities you dispose of in the sale, you must determine the particular shares of stock or securities to which the wash sale rule applies. This is done by matching, in the order of their original acquisition, the shares of stock or other securities disposed of with an equal number (up to the total) of the identical shares or securities acquired. The shares or securities so matched are subject to the wash sale rule.

Loss cannot reduce gain. The loss from a wash sale of one block of stock or securities may not be used to reduce any gain on identical blocks sold the same day.

Example. During 1977 you bought, on three different occasions, 100 shares of X stock. You paid $158 per share for the first block of 100 shares, $100 per share for the second block, and $95 per share for the third block. On December 21, 1980, you sold 300 shares of X stock for $125 per share. On January 8, 1981, you bought 250 shares of identical X stock. The loss of $33 per share realized upon the first block is not deductible because within 30 days after the date of sale you bought 250 shares of X stock. In addition, this loss does not reduce the gain realized on the sale of the second and third blocks of stock.

Dealer. The preceding rule does not apply to a dealer in stock or securities if the loss is from a transaction made in the ordinary course of business.

Short sale. For purposes of the wash sale rule, a short sale is considered complete on the date the short sale is entered into, if on that date:

1) You own (or on or before that date you enter into a contract or option to acquire) stock or securities identical to those sold short; and
2) You later deliver such stock or securities to close the short sale.

Otherwise, a short sale is not considered complete until the property is delivered to close the sale.

Example. On June 1, you buy 100 shares of stock for $1,000. You sell short 100 shares of the stock for $750 on October 5. On October 6, you buy 100 shares of the same stock for $750. You close the short sale on November 16 by delivering the shares bought on June 1. The $250 loss ($1,000 − $750) is not recognized because the date of entering into the short sale (October 5) is deemed to be the date of sale for wash sale purposes and substantially identical stock was purchased within 30 days from the date of the sale. Therefore, the wash sale rule applies and the loss is not recognized.

Nontaxable Exchanges

Under *Sale of Residence*, you were introduced to the most common nonrecognition of gain when you replace your residence within a certain period of time. This section will examine the nonrecognition provision in more detail.

Congress provided these nonrecognition laws because many dispositions involve little change in the character of your investment. In other words, your capital investment after the disposition is still tied up in about the same type of risk as it was before the disposition.

When gain or loss is not recognized, the exchange is nontaxable at the time of the transaction. However, the nonrecognized gain or loss is merely postponed, since certain adjustments must be made to the basis of your replacement property.

The discussion in this section is restricted to two types of nontaxable exchanges; like kind exchanges from which neither gain nor loss is recognized and involuntary exchanges from which gain is not recognized.

Like Kind Exchanges

Neither gain nor loss is recognized if qualified property is exchanged solely for property of like kind.

Qualifying property. Both the property you trade and the property you receive must be held by you for business or investment purposes. Neither property can be used for personal purposes such as your family automobile.

The property you trade and the property you receive must not be property you sell to customers, such as merchandise. It must be property held for productive use in your business and classified as a fixed asset, or property held for investment. Machinery, buildings, land, trucks, and rented houses are examples of property to which this rule applies. The nontaxable exchange rule does not extend to inventories, raw materials, accounts receivable, or other current assets, nor to real estate held for sale to customers by dealers.

Like kind property. The exchange of real estate for real estate and the exchange of personal property for personal property are exchanges of like property. The trade of an apartment house for a store building, or a machine for a truck are like kind exchanges. The exchange of business or investment real property for a lease, in business or investment property, to run 30 years or more is an exchange of property for like property. So are exchanges of city business or investment property for farm business or investment property and improved business or investment property for unimproved business or investment property. An exchange of personal property for real property does not qualify.

If you pay cash in addition to the property you give up, you still have no gain or loss if the preceding conditions are met.

Example. Bill Smith traded an old cab for a new one. The new cab cost $5,800. He is allowed $1,000 for the old cab, and paid $4,800 cash. He has no taxable gain or deductible loss on the transaction, regardless of the adjusted basis of his old cab. If Bill had sold the old cab to a third party for $1,000 and then purchased a new cab, he would have had a recognized gain or loss on the sale of his old cab measured by the difference between the amount realized and the adjusted basis of the old cab.

If you give up unlike property in addition to like property, you must recognize gain or loss only on the unlike property you give up. This is measured by the difference between the adjusted basis and the fair market value of the unlike property.

Example. You exchanged stock and real estate that you held for investment for real estate that you will hold for investment. The stock you transferred has a fair market value of $2,000 and an adjusted basis of $4,000. The fair market value of the property received was equal to the total of the fair market value of the stock and the basis of the real property that was exchanged. You do not recognize a gain or loss on the exchange of the real estate because it qualifies as a nontaxable exchange. However, you must recognize a $2,000 loss on the stock because the stock is unlike property.

A loss is never recognized in a nontaxable exchange, even though you receive property and cash.

Partially nontaxable exchanges. If you receive cash or other unlike property in addition to like property, and the conditions discussed earlier are met, you are taxed on the gain you realize, but only to the extent of the cash and the fair market value of the unlike property you receive. Some or all of the gain you realize may be ordinary gain attributable to depreciation.

Example. You exchange real estate held by you for investment, having an adjusted basis of $8,000, for other real estate to be held for investment. The real estate you receive has a fair market value of $10,000, and you also receive $1,000 in cash. Although the total gain realized on the transaction is $3,000, the portion of gain to be included in income is limited to the $1,000 cash received.

Assumption of liabilities by the other party, or a transfer of property subject to a liability, will be treated as the receipt of cash. Suppose, in the preceding example, that the property you transfer is subject to a $3,000 mortgage. The gain realized and the amount of gain to be taxed are as follows:

Fair market value of like property received	$10,000
Cash	1,000
Mortgage	3,000
Total consideration received	$14,000
Less: Adjusted basis of property you transferred	8,000
Gain realized	$6,000

The realized gain is taxed only to the extent of $4,000, the sum of the money ($1,000) and the mortgage ($3,000).

Basis of property exchanged. When you receive property in a nontaxable exchange, its basis is usually the same as the basis of the property you gave up.

Example 1. If a truck having an adjusted basis of $3,000 and a fair market value of $4,500 is exchanged solely for another truck having a fair market value of $4,500, the basis of the truck received in $3,000, the same basis as the old one.

Example 2. If a truck having an adjusted basis of $3,000 is traded in on another truck having a fair market value of $4,500, and in addition, cash of $1,000 is paid for the new truck, the basis of the truck received is $4,000 (the $3,000 basis of the old truck plus the $1,000 cash paid).

Partially nontaxable exchange. If you make an exchange of like property that would qualify as a nontaxable exchange except that in addition to like property you receive unlike property or money, the basis of the property you receive is the same as the basis of the old property:

1) Decreased by—
    a) Any money received, and
    b) Any loss recognized on the exchange and then
2) Increased by—
    a) Any additional costs incurred, and
    b) Any gain recognized on the exchange.

The assumption of your liabilities by the other party to the transaction is treated as money received by you in the exchange.

The basis as determined must be allocated to the bases of the properties (other than money) received in the exchange. In making the allocation the basis of the unlike property is its fair market value on the date of the exchange. The remainder is the basis of the like property.

Example 1. If a truck having an adjusted basis of $6,000 is exchanged for a new, smaller truck having a fair market value of $5,200, plus $1,000 in cash, there is a recognized gain of $200 ($6,200 − $6,000). The basis of the new truck is determined as follows:

Adjusted basis of old truck	$6,000
Less: Cash received	1,000
Subtotal	$5,000
Plus: Gain recognized	200
Basis of new truck	$5,200

Example 2. Real estate held for investment with an adjusted basis of $5,000 is exchanged for other real estate to be held for investment, a truck, and $1,000 cash. At the time of the exchange, the fair market value of the other real estate is $2,500 and the fair market value of the truck is $1,800. Because there is a recognized gain of $300 on the transaction, the basis of the properties received is determined as follows:

Adjusted basis of real estate transferred	$5,000
Less: Cash received	1,000
Subtotal	$4,000
Plus: Gain recognized	300
Total basis of properties received (to be allocated)	$4,300

The total basis of $4,300 is divided between the truck and the real estate. The basis of the truck is its fair market value, $1,800, and the basis of the real estate is the remainder, $2,500.

Exchange in which loss is not recognized. If you have an exchange that results in an unrecognized loss, the basis of the new property is the same as the basis of the old property decreased by any money received.

The basis as determined must be allocated to the bases of properties other than money received on the exchange. In making the allocation the basis of the unlike property is its fair market value on the date of the exchange. The remainder is the basis of the like property.

Example. You exchanged a boat used in your business, having an adjusted basis of $8,000, for $500 cash, another boat to be used in your business with a fair market value of $5,000, and land to be held for investment with a fair market value of $1,500. There is a nonrecognized loss of $1,000 that is computed as follows:

Boat (fair market value)	$5,000
Land (fair market value)	1,500
Cash	500
Subtotal	$7,000
Less: Adjusted basis of old boat	8,000
Nonrecognized loss	($1,000)

The basis of the properties you received is:

Adjusted basis of boat transferred	$8,000
Less: Cash received	500
Total basis of the properties received (to be allocated)	$7,500

The total basis of $7,500 is allocated to the land received at its fair market value ($1,500), and the remaining $6,000 is the basis of the boat acquired.

Trade-in or sale and purchase. You may not increase the basis for depreciation of property by selling your old property outright to a dealer and then buying the new property from the same dealer, if the sale and purchase are actually a single transaction. If the sale of your old property and your purchase of the new property are dependent on each other you will be considered to have traded in your old property, and the transaction will be treated as an exchange regardless of how it is carried out. This trade-in rule is not avoided by use of a subsidiary in the transaction.

Exchanges for corporate stocks. A corporation may dispose of its own stock, including treasury stock, for money or other property without recognition of gain or loss.

Stock for stock of the same corporation. You may exchange without recognition of gain or loss common stock for common stock in the same corporation, or preferred stock for preferred stock in the same corporation. This rule is not limited to an exchange between a stockholder and a corporation; it includes a transaction between two individual stockholders. It will not apply if common stock is exchanged for preferred, or preferred for common, or if you exchange common stock in one corporation for common stock in another corporation.

Convertible stocks and bonds. No gain or loss is recognized upon the conversion of bonds into stock or preferred stock into common stock of the same corporation under a conversion privilege set forth in the terms of the bond or the preferred stock certificate.

Exchange of property for stock. If property is transferred to a corporation by one or more persons solely in exchange for stock or securities in that corporation and immediately after the exchange such person or persons are in ***control*** of the corporation to which the property was transferred, ordinarily no gain or loss will be recognized.

To be in control of the corporation, the person or persons making the transfer must own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock entitled to vote and at least 80% of the total number of shares of each class of non voting stock outstanding.

Other stocks, securities, receivables, etc. With the exception of corporate stock exchanges just listed, the nontaxable exchange rules and benefits do not apply to exchanges of stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest (including the exchange of partnership interests). However, no gain or loss is recognized on the exchange of certain insurance or annuity policies for other such contracts, or on the exchanges of certain U.S. Government debt obligations for other such obligations.

Involuntary Exchanges

An involuntary exchange occurs when your property is destroyed by casualty, is stolen, or is condemned or requisitioned for public use and other property or money, such as insurance or a condemnation award, is received in payment.

A condemnation is the exercise of a legal power of the Federal Government, a state, or a political subdivision or instrumentality, to take privately owned property for public use upon the award and payment of a reasonable price for the property. You have an involuntary exchange if your property is sold or exchanged either under a threat or imminence of condemnation or after the condemnation actually occurs.

If you have a loss from an involuntary exchange, it is deductible only if the property was business or investment property, or if the loss resulted from a casualty or theft. Losses from condemnations of property held for personal use are not deductible.

If you have a gain from an involuntary exchange (including gain from a casualty or theft), you may choose to postpone paying tax on the gain if you acquire qualified replacement property within the specified replacement period. If you do not choose to postpone the tax, you must report the gain.

Gain or loss. You will realize a gain on the involuntary exchange if the net proceeds are more than the adjusted basis of the converted property. You have a loss if the net proceeds are less than the adjusted basis of the property, or, in the case of a casualty or theft, if the net proceeds are less than the decrease in its fair market value, if the decrease is less than the adjusted basis. (Gain or loss on the total destruction of business property is determined by comparing the amount of compensation received with the adjusted basis of the property, without taking into account fair market value.)

Example 1. You own a rental building with an adjusted basis of $25,000 but a fair market value of only $20,000. The property is condemned by the state for a highway project. If you receive more than $25,000 compensation, you realize a gain. You will sustain a loss if you receive compensation less than $25,000.

Example 2. The facts are the same as above, except that the building is held by you for personal use and is totally destroyed by fire. You realize a gain if you receive more than $25,000 compensation. You sustain a loss only if your compensation is below $20,000.

Net proceeds are the money plus the fair market value of unlike property (see *Money or unlike property received,* discussed later) received in exchange for the converted property, less expenses incurred in obtaining them. In the case of casualties or thefts, net proceeds include insurance or other compensation recovered or expected to be recovered for the loss.

Postponement of tax. If you have a gain from an involuntary exchange, you may choose in some cases to postpone paying tax on all or part of the gain. This choice must be made by the taxpayer who realizes the gain. Thus, if property owned by a partnership or corporation is involuntarily converted, it is the partnership or corporation that must make the choice to postpone the tax and that must acquire replacement property during the replacement period. The acquisition of replacement property by an individual partner or shareholder does not qualify.

Like kind property received. If you receive reimbursement from the condemning authority in the form of property of a like kind to that condemned, or similar or related in service or use, you do not report any gain on the transaction. Your basis for the new property is the same as your basis in the property condemned. This rule applies if, for example, the condemning authority gives you another piece of real estate in lieu of money for your condemned real estate. You have no choice in this case; but such situations are rare. Usually, you receive money from the condemning authority, and must acquire replacement property during the replacement period in order to postpone tax on gain.

Money or unlike property received. When you receive money, including insurance proceeds, or unlike property such as state bonds issued for property condemned, you are ordinarily required to report any gain. However, under certain circumstances you may choose not to report the gain, and thus may defer the payment of the tax. To do this you must purchase, within a specified replacement period, replacement property the cost of which equals or exceeds the net proceeds received from the involuntary exchange.

If the replacement property costs less than the net proceeds you received from the involuntary conversion, the gain must be included in income to the extent of the unexpended part.

Replacement property. Replacement property is property you purchase for the specific purpose of taking the place of the property that was involuntarily converted. It must be similar or related in service or use to the property it replaces, unless the original property was real property used in business or for rental or investment, and was condemned or sold under threat of condemnation.

Property or stock acquired by gift or inheritance is not replacement property.

The identical proceeds you received for the old property do not have to be used to acquire the replacement property.

Similar or related in service or use for an owner-user means that the property must be functionally the same as the property converted. Thus, a business vehicle must be replaced with a business vehicle that performs the same function.

Example 1. Your home is condemned by local authorities in connection with a public improvement project and you receive a condemnation award resulting in a gain. To postpone tax on all the gain, you must either build or buy another home, the cost of which must equal or exceed the net proceeds from the condemnation of the old property.

Example 2. Local authorities condemn your real property containing both your home and your business. Using the fair market values, the condemnation award is allocated 35% to the part of the real estate used as a home and 65% to the part used for business. To postpone tax on gain resulting from the condemnation, you must reinvest at least 35% of the award in another home and at least 65% of the award in real estate to be used for business or investment.

To postpone tax on any or all of the gain, you must purchase replacement property within the replacement period.

The replacement period begins, for a casualty or theft, on the date your property was damaged, destroyed, or stolen.

If you choose to postpone tax on the gain from a condemnation, or other disposition of property because of a threat or imminence of condemnation, the replacement period begins on the date of the disposition of the converted property, or the date of the beginning of threat or imminence of condemnation, whichever is earlier.

The replacement period ends, for a casualty or theft, or of a condemnation of personal property or of real property held for personal use, 2 years after the close of the first year in which any part of the gain on the conversion is realized.

Exception. The replacement period for a condemnation of real property (other than inventory) held for productive use in a trade or business or for investment ends 3 years after the close of the first tax year in which any part of the gain resulting from the disposition of the condemned property is realized.

Form **4798**

Department of the Treasury
Internal Revenue Service

Carryover of Pre-1970 Capital Losses

(Computations of Capital Loss Carryovers and Summary of Capital Gains and Losses if Pre-1970 Capital Losses are Carried to 1981.)

▶ **Attach to Form 1040.**

OMB No. 1545-0185

1981

Name(s) as shown on Form 1040	Your social security number

Paperwork Reduction Act Notice.—We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Instructions

A. Purpose of Form.—Use this form only if you have a pre-1970 capital loss carryover to 1981 from your 1980 Form 4798, Part II, line 17 or 23. If so, first fill in your 1981 Schedule D (Form 1040), lines 1 through 18. Then complete Form 4798, Part I. Use Part II to figure your capital loss carryover from 1981 to 1982.

B. Part I, Line 21 or 36.—If the loss is more than the gain, enter zero. If there is a gain and no loss, enter the gain.

C. Part I, Line 24 or 39.—If the gain is more than the loss, enter zero. If there is a loss and no gain, just enter the loss.

D. Married Taxpayers Filing Separate Returns.—If you are married, filing a separate return, and losses are shown on lines 2 and 7 of Part I, complete Section B of Part I. If losses are shown on lines 5 and 7 of Part I, complete lines 16 through 24 of Part I (whether or not you have to complete lines 12 through 28), and ignore the note under line 16. Your limitation for line 30b is the sum of $1,500 plus (1) the loss on line 24 of Part I, and (2) the loss on line 39 of Part I. Your total limitation must not exceed $3,000.

Part I Capital Gains and Losses

Section A.—Summary of Capital Gains and Losses

Short-term 1 Amount from your 1981 Schedule D (Form 1040), Part I, line 7 . .	1			
2 Pre-1970 short-term capital loss carryover to 1981 from your 1980 Form 4798, Part II, line 17	2	( )		
3 Net short-term gain or (loss), combine lines 1 and 2			3	
Long-term 4 Amount from your 1981 Schedule D (Form 1040), Part II, line 18 .	4			
5 Pre-1970 long-term capital loss carryover to 1981 from your 1980 Form 4798, Part II, line 23	5	( )		
6 Net long-term gain or (loss), combine lines 4 and 5			6	
7 Combine lines 3 and 6 and enter the net gain or (loss) here . . . . *If line 7 is a gain, complete lines 8 through 10. If line 7 is a loss, skip to line 11.*			7	
8 If line 7 shows a gain, enter the smaller of line 6 or line 7. Enter zero if there is a loss or no entry on line 6	8			
9 Enter 60% of line 8			9	
If line 9 is more than zero, you may be liable for the alternative minimum tax. See Form 6251.				
10 Subtract line 9 from line 7. Enter here and on Form 1040, line 12			10	
11 If line 7 shows a loss—if losses are shown on both lines 5 and 6, omit line 11 and go to line 12. **Otherwise**, enter one of the following amounts: a If line 3 is zero or a net gain, enter 50% of line 7 b If line 6 is zero or a net gain, enter amount from line 7 or c If line 3 and line 6 are net losses, enter amount on line 3 added to 50% of amount on line 6 . .			11	
Note: *If there is an entry on line 11, skip lines 12 through 28 and go to line 29.*				
12 Enter loss from line 3; if line 3 is zero or a gain, enter zero			12	
13 Enter loss from line 6			13	
14 Enter gain, if any, from line 3; if line 3 is zero or a loss, enter zero			14	
15 Reduce loss on line 13 by any gain on line 14			15	
16 Combine amounts on 1981 Schedule D (Form 1040), lines 5 and 16 If gain, enter gain. If zero or a loss, enter zero	16			
Note: *If the entry on line 16 is zero, skip lines 17 through 23 and enter on line 24 the loss shown on line 5.*				
17 Enter gain, if any, from 1981 Schedule D (Form 1040), line 16. If zero or a loss, enter zero	17			
18 Enter line 16 or line 17, whichever is smaller	18			
19 Subtract line 18 from line 16	19			
20 Enter loss from line 2; if line 2 is blank, enter zero	20			
21 Reduce gain on line 19 by loss on line 20 (see Instruction B) . .	21			
22 Enter loss from line 5	22			
23 Add the gain(s) on line(s) 18 and 21	23			
24 Reduce the loss on line 22 by any gain on line 23 (see Instruction C)			24	
25 Enter line 24 or line 15, whichever is smaller (if line 24 is zero, enter zero)			25	
26 Subtract amount on line 25 from the loss on line 15			26	
27 Enter 50% of the amount on line 26			27	
28 Add lines 12, 25, and 27			28	
29 Enter the amount from line 11 or line 28, whichever applies	29			
30 Enter here and enter as a (loss) on Form 1040, line 12, the smallest of: a Amount on line 29 b $3,000 (Married taxpayers filing separate returns see Instruction D); or c Taxable income, as adjusted (see page 23 in instructions for Schedule D (Form 1040))			30	( )

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Section B.—Complete if You are Married Filing a Separate Return and Losses are Shown on Lines 2 AND 7 of Part I

31 Combine amounts on 1981 Schedule D (Form 1040), lines 5 and 16. If a gain, enter gain; if zero or a loss, enter zero 31

Note: *If the entry on line 31 is zero, SKIP lines 32 through 38, and enter on line 39 the loss shown on line 2.*

32 Enter gain, if any, from 1981 Schedule D (Form 1040), line 5. If zero or a loss, enter zero 32

33 Enter line 31 or 32, whichever is smaller 33

34 Subtract line 33 from line 31 34

35 Enter loss from line 5; if line 5 is blank, enter zero 35

36 Reduce any gain on line 34 by any loss on line 35 (see Instruction B) 36

37 Enter loss from line 2 37

38 Add the gain(s) on line(s) 33 and 36 38

39 Reduce the loss on line 37 by any gain on line 38 (see Instruction C) 39

Part II Pre-1970 and Post-1969 Capital Loss Carryovers from 1981 to 1982

(Complete This Part if the Amount on Part I, Line 29 is Larger Than the Loss on Part I, Line 30)

1 Enter loss shown in Part I, line 3. If none, enter zero and skip lines 2 through 20. Then go to line 21 . 1

2 Enter gain shown in Part I, line 6. If that line is blank or shows a loss, enter zero 2

3 Reduce loss on line 1 by any gain on line 2 3

Note: *If Part I, line 2 is blank, skip lines 4 through 11 and enter zero on line 12. Then go to line 13.*

4 Combine lines 5 and 16 on your 1981 Schedule D (Form 1040). Enter the gain; if zero or a loss, enter zero 4

Note: *If line 4 is zero, skip lines 5 through 11 and enter on line 12 the loss from Part I, line 2. Then go to line 13.*

5 Enter gain, if any, from 1981 Schedule D (Form 1040), line 5. If zero or a loss, enter zero 5

6 Enter line 4 or 5, whichever is smaller 6

7 Subtract line 6 from line 4 7

8 Enter loss from Part I, line 5, otherwise, enter zero 8

9 Reduce any gain on line 7 by any loss on line 8 9

10 Enter loss from Part I, line 2; otherwise, enter zero 10

11 Add the gains on lines 6 and 9 11

12 Reduce the loss on line 10 by any gain on line 11 12

13 Pre-1970 short-term capital loss (enter line 3 or 12, whichever is smaller) 13

14 Short-term capital loss from years beginning after 1969 (subtract line 13 from line 3) 14

15 Enter any loss from line 13, above 15

16 Enter loss from Part I, line 30 16

17 Pre-1970 short-term loss carryover to 1982 (subtract line 16 from line 15. If the loss on line 15 is smaller than the loss on line 16, enter zero) 17

18 Enter any loss from line 14, above 18

19 Subtract line 15 from line 16. If the loss on line 16 is smaller than the loss on line 15, enter zero 19

20 Post-1969 short-term loss carryover to 1982 (subtract line 19 from line 18. If the loss on line 18 is smaller than the loss on line 19, enter zero) 20

21 If you had to complete Part I, lines 12 through 28, enter any loss from Part I, line 25. Otherwise, enter zero. 21

22 Subtract line 18 from line 19. If the loss on line 19 is smaller than the loss on line 18, enter zero 22

Note: *If you skipped lines 2 through 20 above, enter amount from Part I, line 30.*

23 Pre-1970 long-term loss carryover to 1982 (subtract line 22 from line 21. If the loss on line 21 is smaller than the loss on line 22, enter zero) 23

24 If you had to complete Part I, lines 12 through 28, enter any loss from Part I, line 26. Otherwise, enter the smaller of the loss on Part I, lines 6 or 7. If Part I, line 6 is zero or a gain, enter zero 24

25 Subtract line 21 from line 22 .... × 2. If the loss on line 22 is smaller than the loss on line 21, enter zero . . . 25

26 Post-1969 long-term loss carryover to 1982 (subtract line 25 from line 24. If the loss on line 24 is smaller than the loss on line 25, enter zero) 26

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 14: Capital Gains and Losses, Sales and Exchanges

1. Mark, a cash basis taxpayer, purchased XYZ stock December 31, 1979 for $5,000 and sold it December 31, 1980 for $4,500. This was his only capital asset transaction.

   a. Does Mark have a long-term or short-term capital loss?
   b. In which year does he report his loss?
   c. What amount could he deduct?

2. The facts in (1) are the same except that Mark sold the stock for $5,500. Stocks delivered 1/5/81.

   a. What amount of gain must he report?
   b. In which year does he report his gain?

3. Kay bought MPQ stock on October 15, 1979 for $3,000. MPQ declared bankruptcy on October 14, 1980. The stock was worthless. Does Kay have a long-term or short-term capital loss?

4. Jerry had the following capital asset transactions for the year: Short-term gain $3,000; Short-term loss ($1,000); Long-term gain $4,000; Long-term loss ($1,000). In addition, he had a short-term carryover loss of ($2,500), and a long-term carryover loss of ($500).

   a. What is his net short-term gain or loss?
   b. What is net long-term gain or loss?
   c. What amount of income or loss does he report on his return?

5. Sandy bought 100 shares of ABC stock for $5,000 on December 27,1979. On December 26, 1980, she sold the 100 shares for $4,000. On January 6, 1981 she purchased 100 shares of ABC stock for $3,800. What are the tax effects of these transactions?

6. Betty, a cab driver, traded in her old cab for a new one, which cost her $3,800 less $1,000 on the trade-in for her old cab. She paid the $2,800 balance in cash. Her adjusted basis in the old cab was $800.

   a. What is her taxable gain or deductible loss on the exchange?

   b. What is her basis in the new one?

7. Assume the same facts in exercise one, except that, instead of trading in the cab, Betty sold the old cab for $1,000 to a third party.

   a. What is her taxable gain or deductible loss on the exchange?
   b. What is her basis in the new cab?

8. Ernie traded real estate, which he held for investment, plus stock for other real estate to be held for investment. The property that he traded had an adjusted basis to him of $30,000. The stock transferred had a fair market value of $2,000 and a basis of $4,000. In return, he received real estate with a fair market value of $33,000.

   a. What is Ernie's recognized gain or loss?
   b. What is his basis in the real estate acquired?

Situation 1

Assume Kay Winter, SS# 651-87-3429, had a short-term gain of $1,200 and a long-term gain of $400 on stock sold in June. There is a $1,000 long-term loss carryover from last year's Schedule D.

Complete Schedule D.

Assume that taxpayer had other includible income of $10,000. What is the taxpayer's adjusted gross income?

Situation 2

This year, Carole Field, SS# 472-59-6102, had the following stock transactions:

Description	Date Acquired	Date Sold	Gross Sales Price	Basis
100 shares Amco	02/03/74	11/16/81	$6,000	$2,500
100 shares IBM	02/10/81	10/12/81	4,000	4,500
100 shares ATT	03/13/81	08/23/81	6,000	5,200
100 shares Ford	05/13/72	09/15/81	8,000	5,000
100 shares GM	09/14/69	12/09/81	6,000	7,000

Complete Schedule D to dtermine the net amount to be included in adjusted gross income.

SESSION 15
SUPPLEMENTAL GAINS & LOSSES
(Sales of Business Assets, Form 4797)

Reading Assignment: Form 4797 Instructions
Publication 334, Ch. 23
Publication 225, Ch. 9;10

A. VOCABULARY

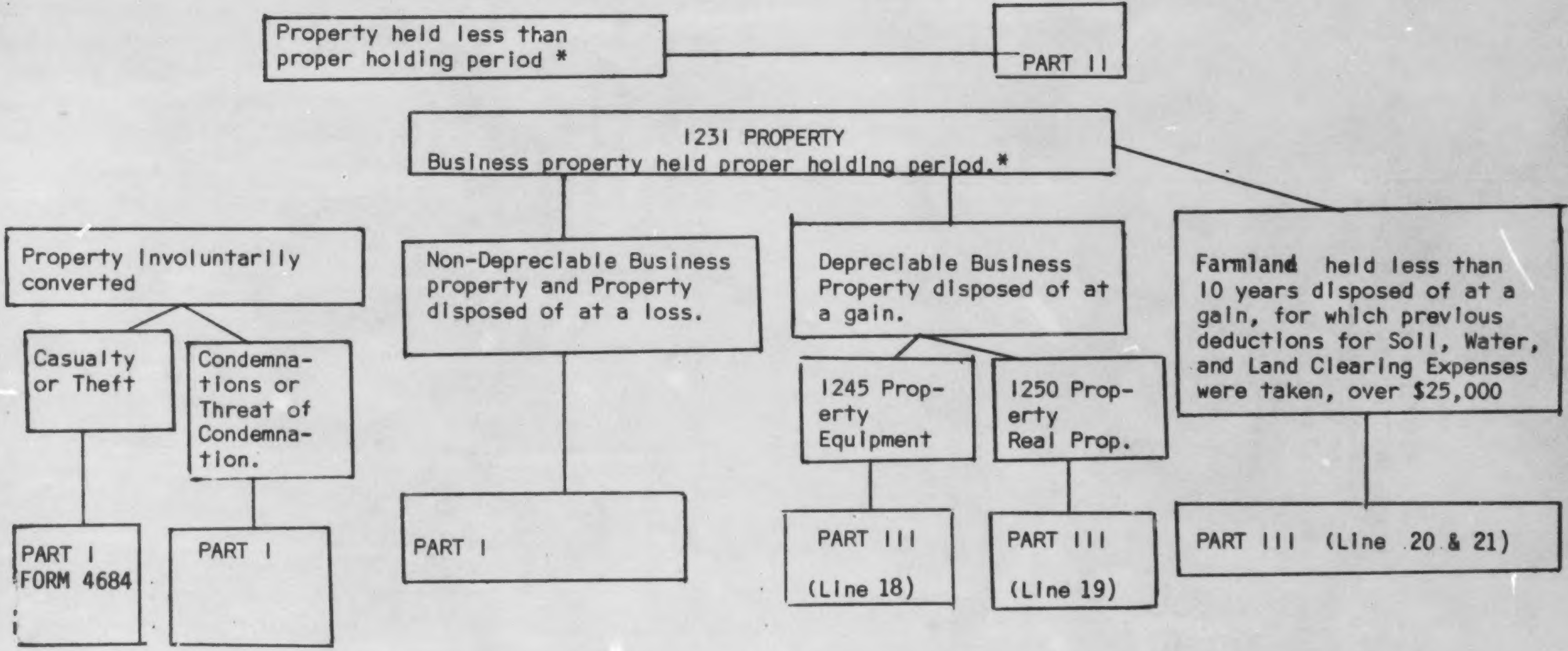
1. Excess depreciation
   (accelerated, additional, bonus)
2. Form 4797
3. Involuntary conversion
4. Section 1231 property
   Section 1245 property
   Section 1250 property
   Section 1251-52 property
   Section 1254 property

B. INTERVIEW QUESTIONS

1. Did you sell or trade any property this year?
2. In what tax year did you first report commercial use of this property?
3. We will need both closing statements the one where you bought the property and the one where you sold it. Do you have them both with you?
4. Did you hold this property jointly with your spouse?
5. Was this property ever involved in a casualty loss, such as fire, explosion, water damage, etc.?
6. Did you dispose of any equipment this year either sold, traded, or abandoned?
7. Here are the original allocations for this property. It totals $XXX. Is this the total original price you paid for this property?

C. 4797 Flow Charts follow.

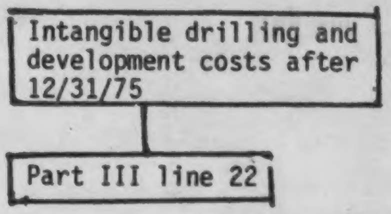
FORM 4797

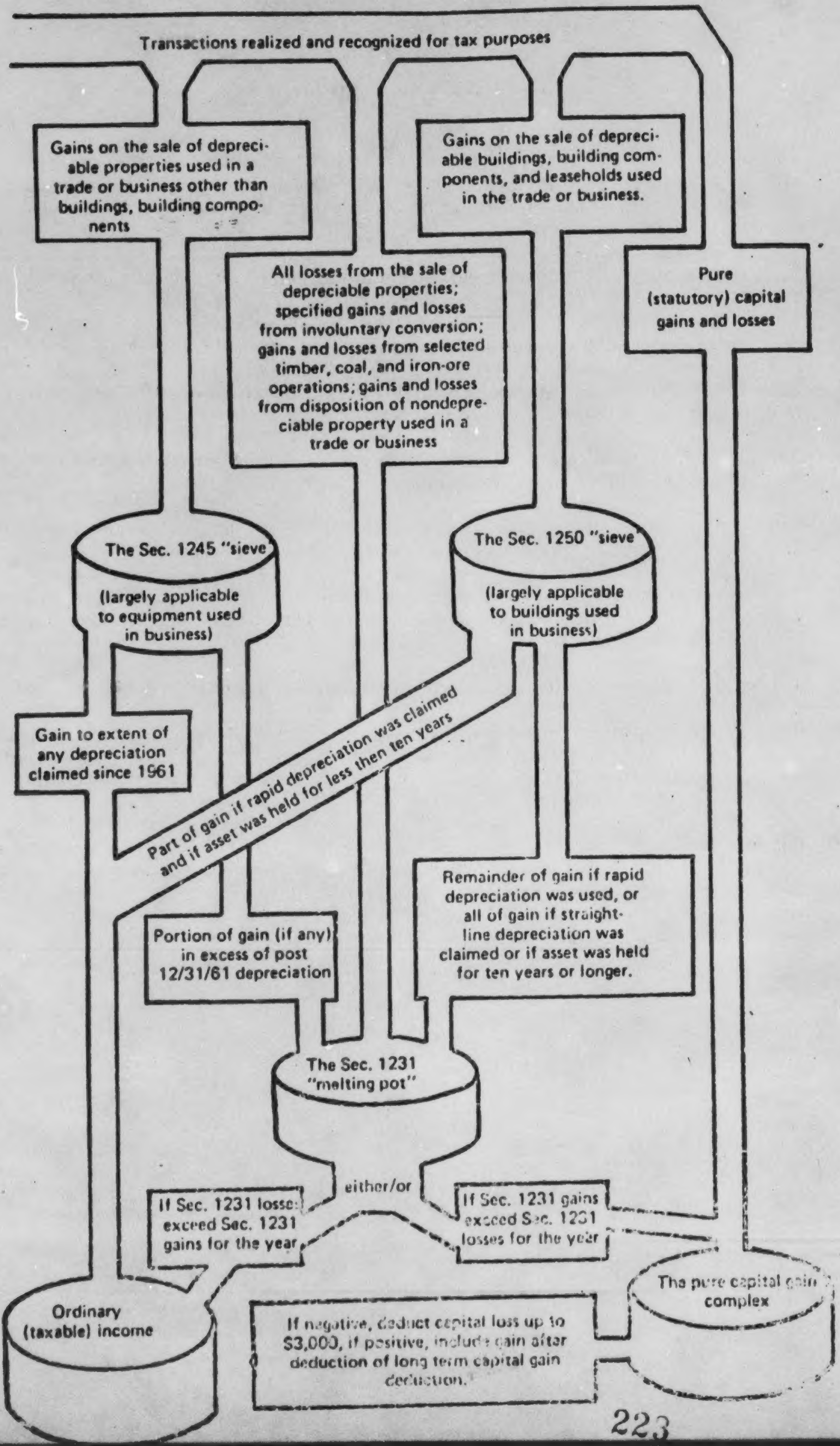

Property held less than proper holding period *
PART II
1231 PROPERTY
Business property held proper holding period.*
Property Involuntarily converted
Casualty or Theft
Condemnations or Threat of Condemnation.
PART I FORM 4684
PART I
Non-Depreciable Business property and Property disposed of at a loss.
PART I
Depreciable Business Property disposed of at a gain.
1245 Property Equipment
1250 Property Real Prop.
PART III (Line 18)
PART III (Line 19)
Farmland held less than 10 years disposed of at a gain, for which previous deductions for Soil, Water, and Land Clearing Expenses were taken, over $25,000
PART III (Line 20 & 21)

* Proper holding periods

General Business Property - 1976 and prior years - More than 6 months
1977 - More than 9 months
1978 and future years - More than 1 year

Cattle and Horses - 24 months
Other Livestock - 12 months


Intangible drilling and development costs after 12/31/75
Part III line 22


Transactions realized and recognized for tax purposes
Gains on the sale of depreciable properties used in a trade or business other than buildings, building components
Gains on the sale of depreciable buildings, building components, and leaseholds used in the trade or business.
All losses from the sale of depreciable properties; specified gains and losses from involuntary conversion; gains and losses from selected timber, coal, and iron-ore operations; gains and losses from disposition of nondepreciable property used in a trade or business
Pure (statutory) capital gains and losses
The Sec. 1245 "sieve"
(largely applicable to equipment used in business)
The Sec. 1250 "sieve"
(largely applicable to buildings used in business)
Gain to extent of any depreciation claimed since 1961
Part of gain if rapid depreciation was claimed and if asset was held for less then ten years
Portion of gain (if any) in excess of post 12/31/61 depreciation
Remainder of gain if rapid depreciation was used, or all of gain if straight-line depreciation was claimed or if asset was held for ten years or longer.
The Sec. 1231 "melting pot"
either/or
If Sec. 1231 losses exceed Sec. 1231 gains for the year
If Sec. 1231 gains exceed Sec. 1231 losses for the year
Ordinary (taxable) income
The pure capital gain complex
If negative, deduct capital loss up to $3,000, if positive, include gain after deduction of long term capital gain deduction.

"SECTION 1231" PROPERTY

The following transactions may result in gain or loss from "section 1231" property:

1) Sales and exchanges of real property or depreciable personal property used in a trade or business and held for more 12 months.

2) Sales and exchanges of property held for the production of rents or royalties if held for more than 12 months.

3) Sales and exchanges of leaseholds used in a trade or business and held for more than 12 months.

4) Sales and exchanges of livestock (except poultry) acquired before 1970 for draft, breeding, or dairy purposes, and held 12 months or more;

5) Sales and exchanges of cattle and horses acquired after 1969 for draft, breeding, dairy, or sporting purposes and held for 24 months or more;

6) Sales and exchanges of livestock (except cattle, horses, and poultry) acquired after 1969 for draft, breeding, dairy, or sporting purposes and held 12 months or more;

7) An unharvested crop on land used in farming if the crop and land are sold, exchanged or involuntarily converted at the same time and to the same person, and the land has been held for more 12 months.

8) Timber, coal, or domestic iron ore under the circumstances described in Publication 544;

9) Property condemned for public use, if it was held for more than 12 months. This includes business property, and capital assets such as investment property and nonbusiness property. However, since losses from the condemnation of property held for personal use are not deductible, they are not included; and

10) Casualty and theft gains and losses on property held over 12 months. This includes casualty and theft of nonbusiness property (such as your car or residence, but in case of a loss only the excess over $100), business property, property held for the production of rents and royalties, and investment property (such as notes and bonds). Insurance proceeds or other reimbursement must be taken into account in arriving at the net gain or loss.

Supplemental Gains and Losses

When the income tax laws were first enacted, real and depreciable property were classified as capital assets. As such, they were subject to the limitation on capital loss deductions. During the depression of the 1930's, substantial losses were being incurred on the sale of such property. To provide relief, Congress passed a law defining capital assets, excluding from this category depreciable assets and real property used in a trade or business. As a result, the taxpayer could claim in full an ordinary loss deduction for losses incurred on the sales of business property. What did not matter very much at the time was that the change meant gain also would be ordinary.

But then during World War II, inflation led to large increases in the value of machinery and other depreciable equipment. At the same time, ships were being lost with replacement costs far above their original costs. Under the law, insurance proceeds over the adjusted basis were taxed in full as ordinary gain. As a result, Congress passed a statute that is known today as *Section 1231* of the Internal Revenue Code. Three motivations are still reflected in that statute today:

1) The sponsors did not see that there was much justification for a distinction between *gains* arising out of *involuntary conversions* and those arising from *sales or exchanges;*
2) With certain limitations, it was also desired that *gains* from the disposition of long term depreciable property (and later, real property) used in a trade or business should be treated as *capital gains;*
3) But, with certain limitations, it was also thought with reference to such property that the earlier allowance of an *ordinary* deduction in the case of *losses* should stand unaffected.

Effect of Code Section 1231. Section 1231 allows capital gains treatment in certain cases for property used in a business. This provision is necessary because, as we have just noted, business property is specifically excluded from the capital asset category.

Under Section 1231, the taxpayer will treat gains and losses from sales, exchanges, and involuntary conversions of noncapital assets (Section 1231 assets) held more than one year in the same manner as such dispositions of capital assets are treated, provided the recognized gains for the year from these dispositions exceed the recognized losses.

If the recognized losses exceed the recognized gains, then all losses are ordinary losses and all gains are ordinary gains.

Section 1231 Property Described

Section 1231 property is depreciable or real property held more than one year and used in a trade or business (including the production of rents or royalties), and it is also trade or business property or a capital asset held more than one year that is subjected to an involuntary conversion by casualty, theft, or condemnation. For example, a home used as a residence is a capital asset for purposes of sale or exchange, but if it is involuntarily converted by fire or other casualty, it is treated as a Section 1231 asset. If a home is owned and rented out, it is a Section 1231 asset whether it is sold, exchanged, or involuntarily converted. A parcel of land held as an investment is a capital asset, but a parcel used in a trade or business (farmland, parking lot) is a Section 1231 asset. Generally, *property used in a trade or business* means depreciable property and real property used in a trade or business which is not:

1) Property includible in inventory or held primarily for sale to customers; or
2) Copyrights, musical, literary, or artistic compositions, letters or memoranda, or similar property created by or for the taxpayer.

The following types of transactions involve Section 1231 property:

1) The sale or exchange of real property (land and buildings) or depreciable personal property (such as machinery or transportation equipment) used in a trade or business (including being held for the production of rents or royalties) and held more than one year;
2) The casualty to or theft of a capital asset or trade or business property held more than one year (but casualty or theft losses on property held for personal use; such as a home or car, are deductible only to the extent they exceed $100 for each occurrence—see Chapter 5);
3) The condemnation of a capital asset or of trade or business property held more than one year (but not condemnation losses on property held for personal use);
4) The sale of an unharvested crop if the crop is sold with the land at the same time to the same individual and the land has been held more than one year (see Chapter 10);
5) The sale, exchange, or involuntary conversion of certain livestock (not including poultry—see Chapter 10); and
6) The sale or exchange of a leasehold used in a trade or business and held more than one year.

Computing Gain or Loss on the Disposition of Section 1231 Property

To assist you in the complex computations necessary for properly reporting gains and losses from dispositions of Section 1231 property, the following discussion has been adapted to the format of Form 4797. Part III is discussed first because if any computations are to be made in it, they must be completed before the transaction can be carried to the first or second parts.

Part III, Gain from Disposition of Property Under Sections 1245, 1250, 1251, 1252, 1254—Assets Held More Than One Year

Transactions involving depreciable property, certain farm property, or certain oil and gas property held more than one year are entered in Part III. This part should be completed first if there are gains on dispositions of property under Sections 1245, 1250, 1251, 1252, or 1254, discussed below.

Section 1245 Property

In effect Code Section 1245 says that when a Section 1245 asset is sold, exchanged, or involuntarily converted, any gain on that transaction will be treated as ordinary income to the extent of any depreciation allowed or allowable after 1961. This is known as ***recapture of depreciation.***

Section 1245 property is property held for more than one year for which depreciation (or amortization) is allowable and which is:

1) Personal property (machinery, equipment, etc.);
2) Livestock held for draft, breeding, dairy, or sport purposes (recapture rule applies only to extent of depreciation deductions in taxable years beginning after December 31, 1969);
3) Elevators and escalators (but only to the extent of depreciation allowed or allowable after June 30, 1963);
4) Amortizable real property (other than in (5)) for which adjustments have been taken for amortization of pollution control facilities, railroad grading and tunnel bores, or on-the-job training and child-care facilities; or
5) Tangible real property (except buildings and their structural components) if used as an integral part of manufacturing, production, extraction, or furnishing transportation, communications, or other public utility services; as a facility for bulk storage of fungible goods in connection with these activities; or as a research facility in connection with these activities.

Note: Depreciation allowed or allowable ordinarily must be used in computing gain on the disposition of a Section 1245 asset unless the taxpayer can establish by adequate records that the amount actually allowed for depreciation or amortization was less than the amount allowable.

Ordinary Income. Any gain on a Section 1245 transaction must be treated as ordinary income to the extent of the depreciation taken after 1961 (with certain exceptions previously noted) because:

1) Some or all of any gain on each transaction is the direct result of having previously taken depreciation and thereby reducing the adjusted basis of the asset (explained in an earlier lesson); and
2) The depreciation deduction was used (or was allowable) to reduce taxable income.

Consider these three situations:

1) A transaction results in a loss;
2) The gain from a transaction is greater than the depreciation allowed or allowable; and
3) The gain from a transaction is less than the depreciation allowed or allowable.

Assume one basic example. We will change the facts to cover these three situations.

Example 1. Delivery Truck #1

George Miller purchased a delivery truck for $5,000 on January 2, 1975, and used it only in his business. When purchased, the truck was estimated to have a useful life of 4 years and a trade-in value (salvage value) at the end of 4 years of $600. On January 2, 1978, Mr. Miller sold the truck for $900.

Selling price of the truck		$900
Less cost of truck	$5,000	
Depreciation taken (3 years at $1,100)	3,300	
Adjusted basis		(1,700)
Loss on the sale		($ 800)

The delivery truck is Section 1231 property, but the sale is not a Section 1245 transaction *because there is no gain.* As a result, this transaction would be shown on Part I, Form 4797 as a loss on the sale of a trade or business asset.

Example 2. Delivery Truck #2

Assume the same facts except that the selling price was $5,100.

Selling price of the truck		$5,100
Less cost	$5,000	
Depreciation taken	3,300	
Adjusted basis		(1,700)
Gain on the sale		$3,400

This is an example of a Section 1231 asset which is also a Section 1245 transaction. Notice that all requirements have been met.

1) The property is personal property (truck);
2) It was used in a trade or business;
3) Depreciation had been allowed ($3,300); and
4) The transaction resulted in a gain ($3,400).

The transaction is entered on Part III, Form 4797.

Note that line 18(a) shows the total amount of depreciation allowed. The gain will be treated as ordinary income to the extent of this depreciation. In this example, $3,300 (the depreciation allowed) of the total gain will be considered ordinary income and the remaining $100 will be treated as Section 1231 gain. The allocation is made easy by the use of Form 4797.

Example 3. Delivery Truck #3

Assume the same facts except that the selling price was $2,300.

Selling price of the truck		$2,300
Less cost	$5,000	
Depreciation taken	3,300	
Adjusted basis		(1,700)
Gain on the sale		$ 600

This transaction is entered on Form 4797, Part III.

Notice the difference here from the treatment given in Example 2. In Example 2, the gain was larger than the depreciation allowed so the gain ($3,400) was treated as ordinary income only to the extent of the depreciation allowed ($3,300). However, in Example 3 the gain was less than the depreciation allowed. Therefore, the total gain is treated as ordinary income.

Examples 2 and 3 illustrate that the amount of gain to be considered ordinary income is the lesser of the depreciation allowed or allowable, or the total gain.

Section 1250 Property

Section 1250 property is any real property other than Section 1245 property for which depreciation is or has been allowable. Section 1250 property includes three types of depreciable real property:

1) Buildings or their structural components not including elevators or escalators;
2) All other tangible real property except property used as an integral part of a specified activity or facility as defined in Section 1245; and
3) Intangible real property, such as leaseholds.

Once property is Section 1245 property in the hands of a taxpayer it cannot become Section 1250 property to that taxpayer. But, Section 1250 property can, because of its use, become Section 1245 property.

Purpose of Code Section 1250. Section 1250 also recaptures depreciation. It treats the gain realized on the disposition of Section 1250 property as ordinary income to the extent of a percentage of the additional depreciation allowed or allowable. There are special rules for computing the amount of recaptured depreciation.

There is no ordinary income under Section 1250 if:

1) The taxpayer computes the depreciation on the property using the straight-line method (or any other method resulting in depreciation not in excess of that computed by the straight-line method) and the property was held more than a year;
2) The taxpayer realizes a loss on the disposition of the property (Section 1250 applies only to gains); or
3) The taxpayer disposes of low-income residential rental property held for 16 2/3 years or more.

Buildings and their structural components. Basically, Section 1250 deals with real property which has been depreciated. The most common example would be buildings and their structural components. The term buildings probably needs no explanation. A structural component is an item which is a part of a building. For instance, a roof is a component part of a building. If a roof is replaced, it is depreciated over its actual life or the life of the building on which it is placed, whichever is shorter.

Land is never subject to depreciation, so Section 1250 is limited to land improvements and buildings and their structural components.

Sale of land and buildings in a single transaction. When land and buildings are sold or exchanged for a single selling price, an allocation of the cost and of the selling price of each must be made because the cost and the selling price of each will appear on a different part of Form 4797.

Section 1250 property held 12 months or less. A taxpayer who disposes of Section 1250 property held for 12 months or less must treat the gain on the disposition as ordinary income to the extent of the entire amount of depreciation allowed or allowable. (Include the total depreciation allowed or allowable even if the straight-line method was used.)

Real property held more than 12 months. When dealing with assets held more than 12 months, only the depreciation allowed after 1963 in excess of the amount allowable under the straight-line method is used to compute the ordinary income portion of the total gain. The excess depreciation is ***additional depreciation.*** This arises when the taxpayer uses the declining-balance method, the sum of the years digits-method, or any other method of rapid, or accelerated, depreciation.

If the taxpayer holds the property more than 12 months, four periods of time will be considered.

First period. Compute all depreciation allowed or allowable prior to 1964. This depreciation is used to compute the adjusted basis and, therefore, the gain or loss on the sale or exchange of an asset, but none of it is used to compute the ordinary income. The reason for this treatment is that Code Section 1250 became effective as of January 1, 1964.

If the actual depreciation before January 1, 1964, is less than it would have been under the straight-line method, the difference may offset the additional depreciation for periods after 1963.

Second period. Compute all additional depreciation allowed for the years 1964 through 1969. After the total additional depreciation is computed, it is multiplied by the ***applicable percentage,***

Briefly, "the applicable percentage" is the percentage of additional depreciation making up the ordinary income portion of a gain. This percentage decreases (after the property has been held for 20 full months) at the rate of 1% a month, so that if qualifying property is held long enough before being sold or exchanged at a gain, no portion of the additional depreciation is ordinary income.

1) If the asset was held 20 months or less, multiply the total additional depreciation allowed by 100% and include this amount as the ordinary income part of the gain; or
2) If the asset was held for more than 20 months, for every full month the asset was held in excess of 20 months, subtract 1% from the total of 100% and apply that percentage to the total additional depreciation allowed. The holding period for property begins the day after it is acquired.

When the asset has been held 10 years or more the applicable percentage is zero and there is no ordinary income for this period.

Third period. Compute all additional depreciation allowed for the years 1970 through 1975. It is usually 100% includible as the ordinary income portion of the gain. However, for qualified low-income housing projects constructed or acquired before 1976, the applicable percentage is the same as that for the second period. For residential rental property, the applicable percentage for the third period is 100% minus 1% for each full month the property is held in excess of 100 full months. When this property has been held 16 2/3 years or more, the applicable percentage is zero and there is no ordinary income for this period.

Fourth period. Compute all additional depreciation allowed for years after 1975. It is usually 100% includible as the ordinary income portion of the gain. However, for qualified low-income housing the applicable percentage for periods after 1975 is 100% minus one percent for each full month the property was held in excess of 100 full months.

Residential rental property. If residential rental property is held 12 months or less, gain to the extent of all depreciation allowed or allowable is treated as ordinary income.

If the property is held more than 12 months, use an applicable percentage which is different for three periods of time.

AFTER 1975: The applicable percentage is 100%.

AFTER 1969 and BEFORE 1976: The applicable percentage is 100% less 1% for each month the asset was held more than 100 months.

BEFORE 1970: The applicable percentage is 100% less 1% for each month held more than 20 months.

Code Sections 1251, 1252, and 1254 transactions are also reported on Form 4797. Because property transactions involving these sections usually are complex, they will be discussed briefly after we show you how to complete Form 4797.

Those particular involuntary conversions have now been isolated and the result is a net loss. The loss is placed on line 7, Part II. from Form 4684.

The third step is to transfer the Part I, . net result to the proper place. In this instance there is a net gain of $11,467. Remember that if the Section 1231 gains exceed the Section 1231 losses, then the net gain is treated as a long-term gain. The $11,467 long-term gain is placed in Part II of Schedule D.

The fourth step is to complete Part II, Form 4797. The net result is a gain of $3,176. Remember all gains in Part II are ordinary gains and all losses are ordinary losses. However, the Form 4797 indicates that if any of the losses are of the type which could only be taken as itemized deductions, those losses must be entered on Schedule A (Form 1040).

In the illustration, the theft loss of the diamond ring may be taken only as an itemized deduction.

Here is how the total net gain is reported:

Total net gain	$3,176
Enter $1,500 of the loss on Schedule A (Form 1040)	(1,500)
Enter $4,676 ($4,776 − $100) on Line 16 Form 1040	$4,676
Total gains less nonitemized losses	$4,676
Total itemized-deduction type losses	($1,500)
Net	$3,176

Summary of Sections 1231, 1245, and 1250

Form 4797 is used to report the sale, exchange, or involuntary conversion of assets used in a trade or business, and certain involuntary conversions of capital assets.

To qualify as a Section 1231 asset, these two conditions must be met:

1) The asset must be real or personal property used in a trade or business or involuntarily converted; and
2) The asset must have been held more than one year. The holding period for livestock is 12 months or 24 months depending on the type of animal.

A Section 1231 asset also can be a Section 1245 asset provided:

1) The asset is personal property or certain real property;
2) The asset was used in the trade or business; and
3) Depreciation was allowed or allowable.

A Section 1231 asset also can be a Section 1250 asset provided:

1) The asset is real property which is not Section 1245 property;
2) The asset was used in a trade or business; and
3) Depreciation was allowed or allowable.

The reason for separating Section 1231 assets into Section 1245 assets and Section 1250 assets is to divide the total gain on the disposal of the asset into ordinary gain and Section 1231 gain. This division is accomplished by treating some or all of the gain on the asset as ordinary income to the extent of depreciation allowed or allowable.

For Section 1245 assets, gain is treated as ordinary income to the extent of total depreciation taken after 1961. In the case of Section 1250 assets, gain is treated as ordinary income only to the extent of a percentage of the additional depreciation after 1963.

If the total of all Section 1231 transactions results in a net gain, this net gain is treated as long-term capital gain. However, if the net result is a loss, then all gains are treated as ordinary gains and all losses are treated as ordinary losses.

You accomplish that objective by summarizing Form 4797: closing out Part III; closing out Part I, and finally, closing out Part II.

Section 1251

Part III of Form 4797 provides space for the recapture of certain farm expenses and certain farm losses incurred in tax years beginning before 1976 and recorded in an excess deductions account.

Section 1252

Part III of Form 4797 also provides for the recapture of certain conservation and land-clearing deductions. These provisions are found in Code Section 1252. The law allows a taxpayer engaged in farming to deduct expenditures of this type from ordinary income. Under normal business accounting rules, these expenses would be added to the basis of the farmland and would reduce capital gain when the land is sold.

Section 1254

Finally, Part III of Form 4797 provides for the recapture of certain intangible drilling and development costs upon the disposition, after December 31, 1975, of oil or gas property. The property must have been held more than one year and the disposition of the property must have resulted in a gain.

Part I,

Sales or Exchanges of Property Used in Trade or Business, and Certain Involuntary Conversions

Usually, only two types of transactions are placed in

1) The gain or loss on the sale or exchange of a business asset held more than one year; and

2) The deductible gain or loss on the involuntary conversion of a business asset or a capital asset held more than one year, if the involuntary conversion was caused by condemnation, seizure, requisition, threat of condemnation, or drought.

In addition, gain from Form 4684, Part II, line 25, (casualty gain) is included in Part I.

Condemnation or threat of condemnation. By law governmental bodies and instrumentalities have the right to acquire property from an individual if the property is needed for public purposes. This is the right of ***eminent domain.*** These entities exercise their right of eminent domain by condemning property and purchasing the property from the owner for public use.

Note that two different circumstances are covered: condemnation and threat of condemnation.

In a condemnation, the entity exercising its right of eminent domain causes the property to be condemned and compensates the owner for the property.

Under threat of condemnation, the owner sells the property after being notified of an intent to condemn the property by an entity having the right of eminent domain. In this situation the owner sells under threat of condemnation rather than from actual, legal condemnation. Both of these transactions are placed in Part I,

Part II

Ordinary Gains and Losses

Look at Part II of Form 4797. Generally, this part is used to report a transaction for an asset held one year or less. A gain or loss on the sale, exchange, or involuntary conversion of trade or business property held one year or less and a gain or loss from casualty or theft of a capital asset held one year or less is entered in Part II.

Remember that the required holding period for certain livestock is different than for other assets. Transactions involving livestock held less than the required holding period also are entered in this part.

In addition, net losses from Part I,

and certain gains from Part III are entered in Part II.

Example. Henry Plumber purchased a tractor for $5,000 on January 3, 1978. After one week of use he realized that it was not large enough to meet his needs. On January 12 he sold the tractor to his neighbor for $4,900. Since he held the tractor less than one year, he reports the transaction in Part II, Form 4797.

Also included in Part II are casualty gains of less than one year (line 17, Form 4684) and casualty losses (line 24a, Form 4684).

Example. John Prince purchased a diamond ring for his wife on April 24, 1970, for $2,500. On June 7, 1978, the family was taking a trip and the ring was stolen from their motel room. The ring was never recovered but the insurance company paid $900 because of the loss. The fair market value of the ring was shown to be $2,500 at the time of the theft. The theft of the ring was an involuntary conversion of a capital asset held more than one year. John has a deductible loss of $1,500 ($2,500 less $900 insurance reimbursement less $100 nondeductible on each casualty to property held for personal use).

Completing Form 4797

The first step is to summarize Part III.

Note that the total gain from all transactions	$7,043
The amount to be reported as ordinary income	4,776
the remainder, is Section 1231 Gain	$2,267

The instructions indicate that the amount of ordinary gain ($4,776) is placed on Part II, Form 4797, where it is

combined with all other transactions involving ordinary gains and losses.

The remainder ($2,267) is transferred to Part 1, Form 4797, where it is combined with all other Section 1231 transactions involving long-term gains and losses.

Part III is completed by transferring all gains to other Parts of Form 4797.

The second step is to summarize Part I.

Related Persons

Losses on sales or exchanges between related persons are never deductible. "Related persons" include:

1) Members of the same family (but not aunts, uncles, or cousins), and
2) A corporation and an individual who owns (directly or indirectly) more than 50% of the value of the outstanding stock of that corporation.

Gain on the sale of depreciable property to one's spouse or to a controlled corporation is ordinary gain. It may not be reduced by the 60% capital gain deduction. A sale or exchange involving a "controlled corporation" is one between:

1) A corporation and an individual who owns (directly or indirectly) at least 80% in value of the outstanding stock of that corporation; or
2) Two or more corporations at least 80% of whose outstanding stock is owned (directly or indirectly) by the same individual.

Form **4684**
Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ See instructions on back.
▶ To be filed with Form 1040, 1041, 1065, 1120, etc.

OMB No. 1545-0177
1981

Name(s) as shown on tax return

Identifying Number

Part I Casualty or Theft Gain or Loss (Use a separate Part I for each different casualty or theft.)

	Item or article	Item or article	Item or article	Item or article
1 (a) Kind of property and description	DIAMOND RING			
(b) Date of purchase or acquisition	4-24-70			
2 Cost or basis of each item	2500			
3 Insurance or other reimbursement you received or expect to receive	900			
4 Gain from casualty or theft. If line 3 is more than line 2, enter difference here and on line 15 or 20, column C. However, see instructions for line 19. Also, skip lines 5 through 14. *If line 2 is more than line 3, enter zero on line 4 and complete lines 5 through 14.*	-0-			
5 Fair market value before casualty or theft	2500			
6 Fair market value after casualty or theft	-0-			
7 Subtract line 6 from line 5	2500			
8 Enter smaller of line 2 or line 7	2500			
Note: *If the loss was to property used in a trade or business or for income-producing purposes, and totally destroyed by a casualty or lost from theft, enter on line 8, in each column, the amount from line 2.*				
9 Subtract line 3 from line 8	1600			

10 Casualty or theft loss. Add amounts on line 9	1600
11 Enter the part of line 9 that is from trade, business, or income-producing property here and on line 15 or 20	
12 Subtract line 11 from line 10	1600
13 Enter the amount from line 12 or $100, whichever is smaller	100
14 Subtract line 13 from line 12. Enter here and on line 15 or 20, column B(ii)	1500

Part II Summary of Gains and Losses (From separate Parts I)

	(A) Identify casualty or theft	(B) Losses from casualties or thefts (i) Trade, business, rental or royalty property	(ii) Other property	(C) Gains from casualties or thefts includible in income
	Casualty or Theft of Property Held One Year or Less			
15				
16	Totals. Add amounts on line 15 for each column			
17	Combine line 16, columns (B)(i) and (C). Enter the net gain or (loss) here and on Form 4797, Part II, line 8(a). (If Form 4797 is not otherwise required, see instructions.)			
18	Enter line 16, column (B)(ii) here and on line 29 of Schedule A (Form 1040)—identify as "4684"			
	Casualty or Theft of Property Held More Than One Year			
19	Any casualty or theft gains from Form 4797, Part III, line 26			
20			1500	
21	Total losses. Add amounts on line 20, columns (B)(i) and (B)(ii)		1500	▨
22	Total gains. Add lines 19 and 20, column (C)			
23	Add line 21, columns (B)(i) and (B)(ii)			1500
	If this form is filed by a partnership, enter line 24 or line 25 on Schedule K (Form 1065), line 7.			
24	If the loss on line 23 is more than the gain on line 22			
	a. Combine line 21, column (B)(i) and line 22. Enter the net gain or (loss) here and on Form 4797, Part II, line 8(a). (If Form 4797 is not otherwise required, see instructions.)			1500
	b. Enter line 21, column (B)(ii) here and on line 29 of Schedule A (Form 1040)—identify as "4684"			
25	If the loss on line 23 is equal to or smaller than the gain on line 22, enter the net gain here and on Form 4797, Part I, line 2(a). (If Form 4797 is not otherwise required, see instructions.)			

For Paperwork Reduction Act Notice, see back of form.

Form **4684** (1981)

1981 Department of the Treasury
Internal Revenue Service

Instructions for Form 4797

Supplemental Schedule of Gains and Losses

(Includes Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions)

(Section references are to the Internal Revenue Code unless otherwise specified.)

A. Examples of Items Reportable on This Form—Where to Make First Entry

Below are common examples of items reportable on this form. Columns (b) and (c) show the part of Form 4797 in which they should be entered. (a)	Held One Year or less (b)	Held More than One Year (c)
1. Depreciable trade or business machinery:		
(a) Sold or exchanged at a gain	Part II	Part III (1245)
(b) Sold or exchanged at a loss	Part II	Part I
2. Depreciable realty (including rental property):		
(a) Sold or exchanged at a gain	Part II	Part III (1250)
(b) Sold or exchanged at a loss	Part II	Part I
3. Cattle and horses acquired after December 31, 1969, that were used in a trade or business for draft, breeding, dairy, or sport purposes:		
(a) Held for less than 24 months from acquisition date, sold at a gain or loss	Part II	Part II
(b) Held for 24 months or more from acquisition date:		
(1) Sold at a gain	Not applicable	Part III (1245)
(2) Sold at a loss	Not applicable	Part I
4. Livestock other than cattle and horses acquired after December 31, 1969, that were used in a trade or business for draft, breeding, dairy, or sport purposes:		
(a) Held less than 12 months from acquisition date, sold at a gain or loss	Part II	Not applicable
(b) Held for 12 or more months from acquisition date:		
(1) Sold at a gain	Part II	Part III (1245)
(2) Sold at a loss	Part II	Part I
Note: *All livestock acquired before January 1, 1970, used in a trade or business for draft, breeding, or dairy purposes, receives same treatment as livestock listed under 4(b).*		
5. Farm land held less than 10 years upon which soil, water, and/or land clearing expenses were deducted after December 31, 1969:		
(a) Sold at a gain	Part II	Part III (1252)
(b) Sold at a loss	Part II	Part I
6. Disposition of certain cost-sharing payments described in section 126	Part III (1255)	Part III (1255)

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

B. Purpose of Form 4797

Use this form to report the following:

1. The sale or exchange of:

   (a) Trade or business property.

   (b) Some kinds of depreciable and amortizable property.

   (c) Some kinds of oil, gas, and geothermal property.

   (d) Section 126 property.

2. The involuntary conversion (other than casualty or theft) of trade or business property and certain capital assets.

3. Disposition of other noncapital assets not mentioned in 1 or 2.

Please get **Publication 544**, Sales and Other Dispositions of Assets, for additional information.

Note: *Use Form 4684 to report involuntary conversions from casualty and theft.*

C. Special Rules

1. Transfer of Appreciated Property to Political Organizations.—Treat a transfer of property to a political organization as a sale of property on the date of transfer. This applies only if the fair market value of the property at the time of the transfer is more than your adjusted basis. Report the fair market value of the property at the time of the transfer as the sales price. Apply the ordinary income or capital gains provisions as if a sale actually occurred. (See section 84.)

2. Exchange of "Like-Kind" Property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. You must report it even though no gain or loss is recognized when you exchange business or investment property for property of "like kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, or other securities or evidences of indebtedness or interest.)

If you use Form 4797, identify on line 1, column a, the property you disposed of. Enter the date you acquired it in column b, and the date you exchanged it in column c. Write "like-kind exchange" in column d. Enter the depreciation allowed (or allowable) in column e, and the cost or other basis in column f. Enter zero in columns g and h. (See section 1031.)

3. Involuntary Conversion of Property.—You may not have to pay tax on a gain from an involuntary or compulsory conversion of property. (See section 1033.)

4. "At Risk" Rules.—If you sell or otherwise dispose of (1) an asset used in an activity to which the "at risk" rules apply or (2) any part of your interest in an activity to which the "at risk" rules apply (see section 465 of the Code), combine the gain or loss on the disposition with the profit or loss from the activity. If you have a net loss, you may be subject to the "at risk" provisions.

D. Where on This Form to Report Transactions

Part I is for reporting sales or exchanges of trade or business property held more than 1 year, and involuntary conversions (condemnations), other than casualty and theft, of property held more than 1 year. If livestock is involved, see section 1231 for a longer holding period.

If you attach your own schedule to show detail of gain or (loss), enter on Form 4797, lines 4 and 10, the total gain and the total loss. Do not combine the total gain with the total loss.

Part II is for reporting ordinary gains or losses on the sale, exchange, or involuntary or compulsory conversion of noncapital assets (trade or business property). Examples are:

1. Land held 1 year or less that does not qualify as a capital asset.

2. Some kinds of depreciable property held 1 year or less.

3. Gains on some kinds of involuntary conversions of capital assets held 1 year or less.

Part III is for reporting a gain on the sale, exchange, or involuntary or compulsory conversion of some kinds of property subject to amortization or depreciation, some kinds of farm property, oil, gas or geothermal property, or section 126 property.

E. Part I, Sales or Exchanges of Property Used in a Trade or Business, and Involuntary Conversions (Section 1231)

Property used in a trade or business is real or depreciable property. It includes: some kinds of livestock, timber, coal, domestic iron ore, and unharvested crops. It does not include: inventory, property held primarily for sale to customers, or certain copyrights; literary, musical, or artistic compositions; letters or memorandums; U.S. Government publications; or similar property.

Line 5(a)(1).—If line 5 is a gain, enter that gain on the line of the applicable Schedule D, as follows:

- Schedule D (Form 1040), line 14.
- Schedule D (Form 1120), line 5.
- Schedule D (Form 1041), line 9.
- Schedule D (Form 1120S), line 5.

F. Part II, Ordinary Gains and Losses

Determine whether the transactions should be reported in Part I or III. If it is not reportable in Part I or III and the property is not a capital asset reportable on Schedule D, report the transaction in Part II.

Small Business Stock.—Report losses from the sale of this stock as ordinary losses on Form 4797, Part II, line 9. However, report gains as capital gains on Schedule D (Form 1040).

Disposition of Partnership Interest.—You may receive ordinary income from a sale or other disposition of your interest in a partnership. Please get **Publication 541**, Tax Information on Partnerships, and **Publication 544**, Sales and Other Dispositions of Assets, for further information.

Line 11(a).—If line 11(a) applies, enter the gain or loss on the applicable form, as follows:

- Form 1120, page 1, line 9(b).
- Form 1065, page 1, line 10.
- Form 1041, page 1, line 8.
- Form 1120S, page 1, line 9(c).
- Form 1120F, page 3, Section II, line 9(b).
- Form 1120–DISC, page 2, Schedule B, line 2(i).
- Form 1120L, see instructions for Form 1120L.

G. Part III, Gains From Disposition of Property Under Sections 1245, 1250, 1251, 1252, 1254, and 1255

1. When To Use Part III.—Part III is for converting a possible long-term capital gain on a disposition of property into ordinary income. You must do this if any of the following apply:

(a) If depreciation or amortization is allowed or allowable after certain dates. (See sections 1245 and 1250.)

(b) If farm loss(es) exist. (Special rules exempt certain individuals, estates, and electing small business corporations. See section 1251.)

(c) If soil and water conservation expenses or land-clearing expenses were deducted on certain farm land after December 31, 1969. (See section 1252.)

(d) If intangible drilling and development costs were incurred after December 31, 1975 for oil, gas and geothermal property. (See section 1254.)

(e) If you disposed of section 126 property. (See section 1255.)

Caution: *If you are completing this form for a partnership, skip lines 20 and 21. A partnership should refer to sections 1251 and 1252 for guidance. A partnership may also have to use its own attachments to support entries on Schedule K (Form 1065) relating to sections 1251 and 1252 distributions to partners. See Instruction G.5.*

2. How To Use Part III.—Use Part III, lines 12 through 23, to report up to four transactions. Use additional forms, if necessary. Complete the lines that apply for each disposition of property.

For example, if you dispose of property subject to section 1245, complete line 12(A), lines 13 through 17, and line 18 in the "Property A" column. If you also dispose of property subject to section 1250, complete line 12(B), lines 13 through 17, and line 19 in the "Property B" column.

If you dispose of section 1251 property, it may be subject to section 1245 before you apply section 1251 treatment to it. In such a case, after you apply section 1245 treatment, go to line 20 in the same property column to determine the effect of section 1251 on the balance of any gain that has not been converted to ordinary income under section 1245. A similar relationship may exist between sections 1251 and 1252 if you dispose of some kinds of farm land. In this case, apply section 1251 first. Then go to line 21 in the same property column to determine the effect of section 1252 on any balance of gain that has not been converted to ordinary income under section 1251.

3. Section 1245, Gain From Disposition of Depreciable Property and Certain Real Property Held More Than One Year.—

Definition.—Section 1245 property is property which is depreciable (or subject to amortization under section 185) and is one of the following:

(a) Personal property.

(b) Livestock held for draft, breeding, dairy, or sport purposes.

(c) Elevators and escalators.

(d) Real property (other than property described in (e)) subject to amortization or deduction under sections 169, 179, 185, 188, 190, 193, or 194.

(e) Tangible real property (except buildings and their structural components) if it is used in any of the following ways:

(1) As an integral part of certain business activities.

(2) As a facility for research.

(3) For the bulk storage of fungible commodities (including commodities in a liquid or gaseous state) in connection with manufacturing, production, extraction, or furnishing transportation, communications, or certain other public utility services.

(f) A single purpose agricultural or horticultural structure under section 48p.

(g) A storage facility used in connection with the distribution of petroleum or any primary product of petroleum.

See section 1245(b) for exceptions and limitations involving the following:

(a) Gifts.

(b) Transfers at death.

(c) Certain tax-free transactions.

(d) Certain like-kind exchanges, involuntary conversions, etc.

(e) Sales or exchanges to accomplish FCC policies, and exchanges to comply with SEC orders.

(f) Property distributed by a partnership to a partner.

(g) Transfers to tax-exempt organizations where the property will be used in an unrelated business.

(h) Timber property.

See section 1245(a)(4) for a special rule for player contracts. Also see section 1056(c) regarding information required to be supplied by the transferor of a franchise of any sports enterprise if the sale or exchange involves the transfer of player contracts.

Line 18(a).—Enter the depreciation allowed or allowable after December 31, 1961 (after June 30, 1963, for elevators and escalators, after December 31, 1969 for livestock, and after December 31, 1980 for recovery property under section 168(a). Include expenses deducted under section 179). You may have to include depreciation allowed or allowable on another asset if you use the adjusted basis of the other asset in determining the adjusted basis of the property described on line 12. An example is property acquired by a trade-in. (See section 1.1245–2(c)(4) of the regulations.)

See section 1245(a)(2)(D) when you dispose of certain amortizable real property.

See section 1245(a)(5) for special rules when section 1245 recovery property is disposed of.

See section 1245(a)(6) for special rule for qualified leased property.

4. Section 1250, Gain From Disposition of Depreciable Real Property Held More Than One Year.—

Definition.—Section 1250 property is depreciable real property other than section 1245 property.

See section 1250(d) for exceptions and limitations involving the following:

(a) Gifts.

(b) Transfers at death.

(c) Some tax-free transactions.

(d) Some like-kind exchanges, involuntary conversions, etc.

(e) Sales or exchanges to accomplish FCC policies, and exchanges to comply with SEC orders.

(f) Property distributed by a partnership to a partner.

(g) Disposition of a principal residence.

(h) Disposition of qualified low-income housing.

(i) Transfers of property to tax-exempt organizations where the property will be used in an unrelated business.

(j) Disposition of property as a result of foreclosure proceedings.

(k) Disposition of property which is section 1245 recovery property.

When you dispose of section 1250 property at a gain (including some like-kind exchanges or involuntary or compulsory conversions), treat all or part of the "additional depreciation" as ordinary income.

Lines 19(a), 19(d), and 19(g).—For section 1250 property held more than one year, additional depreciation is the excess of actual depreciation attributable to periods after December 31, 1963, over depreciation figured for the same period using the straight line method.

Enter on line 19(a) the additional depreciation for the period after December 31, 1975.

Enter on line 19(d) the additional depreciation for the period after December 31, 1969, and before January 1, 1976.

Enter on line 19(g) the additional depreciation for the period after December 31, 1963, and before January 1, 1970.

If the depreciation figured using the straight line method is more than the actual depreciation taken for any period, the additional depreciation for the next prior period should be reduced, but not below zero, by that amount.

For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).

If substantial improvements have been made, see section 1250(f).

Line 19(b).—Use 100% as the percentage for this line unless one of the situations in (a) through (d) applies:

(a) Section 1250 property with a mortgage insured under section 221(d)(3) or 236 of the National Housing Act, or housing financed or assisted by direct loan or tax abatement under similar provisions of State or local laws with the owner subject to the restrictions in section 1039(b)(1)(B): The applicable percentage is 100% minus 1% for each full month the property was held for more than 100 full months.

(b) Dwelling units held for occupants who were eligible for subsidies either under section 8 of the U.S. Housing Act of 1937, or under State or local law authorizing similar levels of subsidy for low-income families: The applicable percentage is 100% minus 1% for each full month the property was held for more than 100 full months. (This applies to a building, or part of a building, devoted to dwelling units if at least 85% of the units in the building are held for occupants eligible under these laws.)

(c) Section 1250 property with a loan made or insured under title V of the Housing Act of 1949: The applicable percentage is 100% minus 1% for each full month the property was held for more than 100 full months.

(d) Section 1250 property with a depreciation deduction for rehabilitation expenditures allowed under section 167(k): The applicable percentage is 100% minus 1% for each full month over 100 full months after the date the property was placed in service.

Items (a), (b), and (c) above do not apply to the additional depreciation described in section 1250(b)(4) which was allowed under section 167(k).

Line 19(e).—Use 100% as the percentage for this line unless one of the situations in (a) through (d) below applies:

(a) Section 1250 property disposed of under a written contract that was binding on the property owner on and after July 24, 1969: The applicable percentage is 100% minus 1% for each full month the property was held over 20 full months.

(b) Section 1250 property with a mortgage insured under section 221(d)(3) or 236 of the National Housing Act, or housing financed or assisted by direct loan or tax abatement under similar State or local laws (with the owner subject to the restrictions in section 1039(b)(1)(B)): The applicable percentage is 100% minus 1% for each full month the property was held for over 20 full months.

(c) Residential rental property (defined in section 167(j)(2)(B)) other than that covered by (a) and (b) above: The applicable percentage is 100% minus 1% for each full month the property was held over 100 full months.

(d) Section 1250 property with a depreciation deduction for rehabilitation expenditures allowed under section 167(k): The applicable percentage is 100% minus 1% for each full month over 100 full months after the date the property was placed in service.

Items (a), (b), and (c) above do not apply to the additional depreciation described in section 1250(b)(4).

Line 19(h).—The applicable percentage is 100% minus 1% for each full month the property was held over 20 full months.

5. Gain From Disposition of Sections 1251 and 1252 Property (Lines 20 and 21).—

Partnerships and Partners.—Partnerships must skip lines 20 and 21, because only a partner can figure an excess deductions account. This is used to convert a possible long-term capital gain into ordinary income.

For a partnership, line 26 may include gains that will not be carried from line 26 to Part I.

(This can occur if the partnership applied section 1245 treatment to the same property that the partner must consider individually under section 1251.) In this case, subtract from line 26 the gains that are subject to treatment under section 1251, and distribute them to the partner. Report this as a separate item in Schedule K (Form 1065). See instructions for Schedule K (Form 1065).

Partners should enter on the applicable lines of Part III amounts subject to sections 1251 and 1252, according to instructions they get from the partnership.

Section 1251, Gain From Disposition of Certain Property Used in Farming Held More Than 1 Year Where Farm Losses Offset Nonfarm Income.—Refer to section 1251 to determine if there is ordinary income attributable to farm recapture property described in section 1251(e)(1). Section 1251 does not apply if:

(a) There is no excess deductions account be[illegible]use of a carryover into the current year or because of succeeding to a transfer of such an account, and

(b) There is either (1) no farm net loss for the tax year or (2) there was a farm net loss determined by an accounting method that recognizes the use of inventories and the proper charging of expenditures to a capital account.

In addition to this rule and assuming there is no excess deductions account because of a carryover into the current year or because of succeeding to a transfer of such an account, an individual or estate, and in certain cases an electing small business corporation may ignore section 1251 if:

(a) Nonfarm adjusted gross income is $50,000 or less ($25,000, if married filing a separate return, and spouse has nonfarm adjusted gross income); or

(b) There is a farm net loss of $25,000 or less ($12,500, if married filing a separate return, and spouse has nonfarm adjusted gross income).

See section 1251(b) for exceptions and limitations involving the following:

- Gifts.
- Transfers at death.
- Certain corporate transactions.
- Certain like-kind exchanges and involuntary conversions, etc.
- Partnerships.
- Property transferred to a controlled corporation.

The excess deductions account in section 1251 limits the gain to be recaptured as ordinary income. Determine the excess deductions account and apply it on line 20(c) to the section 1251 farm recapture property in accordance with section 1251. Although the rules of section 1251 still apply to the disposition of certain farm property, add no amount to the excess deductions account.

Treat gains from disposition of certain farm property subject to sections 1251 and 1245 under section 1245 (line 18) and then under section 1251 (line 20).

However, a partner who received from a partnership a distribution of gain that is subject to section 1251 should skip line 18 (section 1245) and enter the applicable amounts on line 17 and 20, according to instructions from the partnership, before starting the section 1251 computation. This is necessary because the partnership will have already applied section 1245 to that property.

Section 1252, Gain From Disposition of Certain Farm Land Held More Than 1 Year But Less Than 10 Years (Line 21).—Refer to section 1252 to determine if there is ordinary income on the disposition of some kinds of farm land held for less than 10 years for which deductions have been allowed for expenditures made after December 31, 1969, under sections 175 (soil and water conservation) and 182 (land clearing). If you dispose of such farm land within the 10th or later year after you acquire it, section 1252 does not apply; you may skip line 21. If section 1252 is applicable, the gain to be recaptured as ordinary income is the smaller of line 21(d) or 21(e).

Gain from disposition of certain farm land may be subject to ordinary income rules under sections 1251 and 1252 before being considered for purposes of section 1231 (Part I). If so, treat the property under section 1251 before you apply the rules under section 1252.

Line 21(d).—Enter 100% of line 21(c) on line 21(d), except as follows:

(1) 80%, if the farm land was disposed of within the 6th year after acquisition.

(2) 60%, if disposed of within the 7th year.

(3) 40%, if disposed of within the 8th year.

(4) 20%, if disposed of within the 9th year.

(5) Zero, if disposed of within the 10th or later year.

6. Section 1254, Gain From Disposition of Interest in Oil, Gas or Geothermal Property (Line 22).—If you dispose of oil, gas or geothermal property at a gain, treat all or part of the gain as ordinary income. Include on line 15 any depletion allowed (or allowable) in determining the adjusted basis of the interest in the property.

Line 22(a).—Enter the total amount of expenditures after December 31, 1975 (reduced as explained below) which:

(a) Are allocable to the oil, gas or geothermal property, and

(b) Have been deducted as intangible drilling and development costs under section 263(c) by the taxpayer or any other person, and

(c) Would have been reflected in the adjusted basis of the property if they had not been so deducted.

Reduce the amount of intangible drilling and development costs determined above by the amount (if any) by which the deduction for depletion under section 611, with respect to the interest, would have increased if such costs incurred after December 31, 1975 had been charged to a capital account rather than deducted.

Disposition of a Portion of an Oil, Gas or Geothermal Property.—Except as provided in section 1254(a)(2):

(a) For the disposition of a portion of an oil, gas or geothermal property (other than an undivided interest), treat the entire amount of the total expenditures described above with respect to the property as allocable to that portion to the extent of the amount on line 22(b).

(b) For the disposition of an undivided interest in an oil, gas or geothermal property (or a portion of it), treat a proportionate part of the total expenditures described above for the property as allocable to the undivided interest to the extent of the amount on line 22(b).

7. Section 1255. Gain from Disposition of Section 126 Property.—Enter on line 13, the amount realized from the sale, exchange or involuntary conversion of section 126 property. Enter the fair market value of section 126 property in the case of any other disposition.

Enter on line 16, the adjusted basis of the section 126 property disposed of.

Line 23(a)—Applicable percentage.—Use 100% if the property is disposed of less than 10 years after receipt of payments excluded from income. Use 100% minus 10% for each year or part of a year, that the property was held more than 10 years. Use zero if 20 years or more.

H. Installment Sales

If you sold property at a gain, and are to receive any payment in a tax year after the year of sale, you must use the installment method and Form 6252, Computation of Installment Sale Income, unless you elect not to. Also use Form 6252, if you received a payment in 1981 from a sale made in an earlier year on the installment method.

If you want to elect out of the installment method, you must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Form 4797.

(2) If you received a note or other obligation and are reporting it at less than face value (including all contingent payment obligations), complete Part IV. If more than one, enter the amounts separately in the spaces in Part IV.

FORM 4684 INSTRUCTIONS

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Instructions

(Section references are to the Internal Revenue Code)

Purpose of Form:

Use this form to figure your gain or loss from casualty or theft.

Individuals: If all of the following apply, you do not have to use Form 4684. Instead, use Schedule A (Form 1040) and the worksheet in the Schedule A instructions:

- The casualty or theft resulted in a loss.
- The deductible loss was less than $1,000.
- You only had one loss during the year.
- Only one item was lost or damaged from the one loss.
- The loss was to property that was not used in a trade or business, or for income-producing purposes.

Form 4684 has two parts

Use Part I to figure your gain or loss. Use a separate column for each item lost or destroyed by one casualty or theft. Attach additional sheets if necessary. Use a separate Part I for each casualty and theft during the tax year.

Part II summarizes all your gains and losses from casualties and thefts during the tax year. It also shows you where to enter your gain and deduct your loss.

Publication 584, Disaster and Casualty Loss Workbook, contains inventory sheets which you might find helpful.

Casualty or Theft Losses You May Deduct

You may deduct losses arising from:

- fire
- storm
- shipwreck
- other casualty
- theft (for example, larceny, embezzlement and robbery)
- damage to your car that is not the result of a willful act or willful negligence of the driver.

When to Deduct a Loss

Casualty loss.—Deduct the part of your casualty loss that will not be reimbursed, in the tax year the casualty occurred. However, a disaster loss may be treated differently. See the section on Special Rule for Disaster Losses.

Theft loss.—Deduct the part of your theft loss that will not be reimbursed, in the tax year you discover the theft.

If you are not sure whether part of your casualty or theft loss will be reimbursed, do not deduct that part until the tax year when you are reasonably certain that it will not be reimbursed.

If you are reimbursed for a loss you deducted in an earlier year, include the reimbursement in your income for the tax year in which you received it. Include it to the extent the deduction reduced your tax in the earlier year.

Casualty or Theft Gains That You Must Report

If the amount you received in insurance or other compensation is more than the cost or other basis of the property, you have a casualty or theft gain.

If you had a casualty or theft gain from trade, business, or income-producing property held more than one year, part or all of the gain may be ordinary income. See instructions for line 19.

If property is destroyed or lost by casualty or theft and replaced with similar property, the gain may be partially or wholly nontaxable. For details, see **Publication 547,** Tax Information on Disasters, Casualties, and Thefts. Report on this form only the part of the gain that is taxable.

How to Figure a Casualty Loss

Trade, Business or Income-Producing Property.—To figure a casualty loss from a trade or business or from income-producing property, measure the decrease in value by taking the building and other items into account separately. For example, if you had a rental property that was damaged by a storm, figure the loss on the building separately from any trees or shrubs that were damaged.

Other Property.—To figure a casualty loss involving real property and real property improvements not used in a trade or business, or for income-producing purposes, measure the decrease in value of the property as a whole.

Special Rule for Disaster Losses

A disaster loss is a loss which occurred in an area determined by the President of the United States to warrant Federal disaster assistance. You may elect to deduct the loss in the prior tax year as long as the loss would otherwise be allowed as a deduction in the year it occurred.

This election must be made by filing your return or amended return by the later of the following two dates:

(1) The due date for filing your original return (without extensions) for the tax year in which the disaster actually occurred.

(2) The due date for filing your original return (including any extension) for the tax year immediately before the tax year in which the disaster actually occurred.

The return claiming the disaster loss should specify the date or dates of the disaster and the city, town, county, and State in which the damaged or destroyed property was located.

You may revoke your election within 90 days after making it by returning to IRS any refund or credit you received from the election. If you revoke your election before receiving a refund, you must repay the refund within 30 days after receiving it.

Note: To determine the amount to deduct for a disaster loss you must take into account any benefits you received from Federal or State programs to restore your property.

Line-by-Line Instructions

Line 1(a).—Kind of property and description.—Enter in separate columns each property lost or damaged by one casualty or theft: For example, house, car, diamond ring, etc.

Line 1(b).—Date of purchase or acquisition.—Enter in separate columns the date you purchased or acquired each separate property lost or damaged by one casualty or theft.

Line 2.—Cost or basis.—Enter in separate columns the cost or other basis of each property. This usually means original cost plus improvements, minus depreciation allowed or allowable, amortization, depletion, etc. Special rules apply to property received as a gift or inheritance. For more information, see **Publication 551,** Basis of Assets.

Line 3.—Enter on this line any insurance or other reimbursements you received or expect to receive as a result of the casualty or theft.

Lines 5, 6, and 7.—Enter in separate columns the fair market value of each item. Fair market value is the price at which the property would change hands between a willing buyer and a willing seller. Replacement cost is not fair market value. The fair market value of property after a theft is zero. Fair market value is generally determined by competent appraisal. This appraisal must take into account the effects of any general market decline that may occur at the same time as the casualty or theft. You may be able to use the cost of repairs to the damaged property as evidence of the loss of value. However, you must show the following:

(a) The repairs are necessary to restore the property to the condition it was in immediately before the casualty.

(b) The amount you spent for these repairs is not excessive.

(c) The repairs only correct the damage.

(d) The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

Line 11.—If part of line 9 is from trade, business, or income-producing property, enter that amount on this line. If the loss is from property partly used for personal purposes, such as a personal home with a rental unit, include only the part used for trade, business, or income-producing property on this line.

Lines 15 and 20.—Enter on line 15, all gains and losses to property held one year or less. Enter on line 20, all gains and losses to property held more than one year. However, see the instructions for line 19. If part of one casualty or theft is to property held one year or less, and part to property held more than one year, separate it according to how long the property was held. It may be necessary to allocate line 14. See **Publication 547,** Tax Information on Disasters, Casualties, and Thefts, for more information.

Column A.—Identify the casualty or theft. Use a separate line for each different casualty or theft that occurred during the tax year.

Column B(i).—Enter the part of line 11 from trade, business, rental, or royalty property.

Column B(ii).—Enter the loss from line 14 and the part of line 11 not to be included in column B(i).

Lines 17 and 24(a).—If Form 4797 is not otherwise required, enter this amount on the applicable form as follows and identify as "4684":

Form 1040, line 14
Form 1120, page 1, line 9(b)
Form 1065, page 1, line 10 (Form 4684, line 17 only)
Form 1041, page 1, line 8
Form 1120S, page 1, line 9(c)

Lines 18 and 24(b).—Estates and trusts, enter amount from this line on Form 1041, line 16. Partnerships enter the amount from line 18 on Schedule K (Form 1065), line 12.—identify as "4684".

Line 19.—If you had a casualty or theft gain from trade, business, or income-producing property held more than one year, you may have to recapture part or all of the gain as ordinary income. If so, complete Form 4797, Part III and this line instead of completing line 20 of Form 4684.

Line 25.—If Form 4797 is not otherwise required, enter this amount on your appropriate Schedule D as follows and identify as "4684":

Schedule D (Form 1040), line 14
Schedule D (Form 1120), line 5
Schedule D (Form 1041), line 9
Schedule D (Form 1120S), line 5.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1981—O—343-173

PROBLEMS FOR STUDENTS TO WORK IN CLASS
OR AS HOMEWORK

SESSION 15: Supplemental Gains & Losses

Situation 1

Mr. Brown sold his cleaning business on July 1, for $100,000. He started the business from "scratch" and the following is the breadkown of the sales price allocation:

Inventory	$10,000	
Goodwill	10,000	
Furniture & fixtures	10,000	
Delivery truck	6,000	
Building	64,000	($30,000 was for the land)

His 1980 tax return shows that thru 12/31/80 he had taken $5,000 depreciation on the furniture and fixtures, @ 150DB over a 10 year useful life. Original cost was $8,000. Purchase was made on 01/05/75.

The delivery truck was purchased on 02/02/78 for $10,000. The salvage value was $1,500 and depreciation was using SL over a 4 year useful life.

The building was purchased on 08/10/74 for $30,000 of which $10,000 was for the land. He used SL depreciation over a 35-year useful life.

Assume he takes no further depreciation on the depreciable items and complete a Form 4797.

Situation 2

Ms. Bryant had a fire in her leased premises, and all of her office furniture and equipment were ruined. The insurance company paid her $6,000 for her loss and there was no salvage. Also, they paid her $2,500 for loss of business, and $800 for temporary living expenses. The remaining basis at the date of the fire was $1,000 and she spent $5,500 for new furniture.

a. What was her gain or loss, if any, reportable on Form 4797?
b. What would be her adjusted basis in the new furniture and equipment?
c. How much, if any of the $5,500 for new equipment is eligible for investment credit?
d. Where should the $2,500 loss of business reimbursement be reported on the return?
e. Where would the $800 temporary living expenses be reported?

Situation 3

Prepare forms 4684 and 4797 as applicable for the taxpayer, Farmer Jones, who experienced the following taxable events in 1981.

EVENTS: 1. His cow was struck by lightning on January 10. It had been purchased for $400 on Jan. 2, 1980. He subsequently had taken $100 in depreciation. His insurance company paid him $200.

2. He sold ten acres of farm land on April 1 for $1,000 per acre. The realtors commissionn was $1,000. He ahd purchased the land on March 1, 1970 for $200 per acre.

3. He sold his tractor on January 10 for $7,000. He had purchased it on January 10, 1975 for $8,000 and had taken $4,000 in depreciation.

4. ABC, Inc., lost its factory in a fire. The basis of the structure before the fire was $400,000. ABC, Inc., received $500,000 of insurance and paid $520,000 to consturct a new factory. ABC, Inc., will recognize:

a. a gain of $100,000
b. a loss of $100,000
c. neither a gain or a loss
d. a $20,000 loss
e. none of the above

5. The basis of ABC, Inc.,'s new factory is: $______

6. Smith sold an office building for $255,000. Smith had purchased the building in 1980 for $200,000 and had deducted $50,000 of accelarated depreciation prior to the sale. Straight-line depreciation would have been $40,000. Smith would recognize a gain of $105,000 as follows:

   a. Section 1231 gain $55,000, Section 1250 gain $50,000
   b. Section 1231 gain $50,000, Section 1250 gain $55,000
   c. Section 1231 gain $103,600, Section 1250 gain $1,400
   d. Long-term capital gain of $105,000

SESSION 16

SALE OF PERSONAL RESIDENCE
INSTALLMENT SALES

READING ASSIGNMENT: Publication 17 Ch. 28;30 review Ch. 14
Publication 225, Ch. 11
Publication 334, Ch. 22

A. VOCABULARY

Adjusted sales price
Amount realized
Boot
Fixing-up expense
Gain realized
Gain recognized
Installment method
Over 55 exclusion
Nonrecognition of loss
Multiple sales of personal residences in 24mo. period
Principal residence

B. INTERVIEW QUESTIONS

1. Did you sell your principal residence?
2. Do you have the pertinent closing statements of the home you purchased and the home you sold?
3. How long did you live in the home you sold?
4. Where did you live before then?
5. Did you own the prior house?
6. If you owned the prior house, did you defer a gain to the house sold?
7. Was your spouse's name on the house sold?
8. What were your ages when you sold your home?
9. Did you ever take a dedcution for business use of the home?
10. Did you ever rent or lease any portion of this property?
11. Did you ever claim an energy credit for the home you sold?

C. ESCROW STATEMENT

Sample form follows showing both purchaser and sell amounts:

1. House sale (if personal-2119)
2. House purchase (if personal)
3. Set up rental schedule depreciation expense and tax expense etc. (if rental)
4. Schedule A deductions
5. Taxability of refunded real estate taxes:
   a. Change situation to December sale (off-set on Schedule A 11/15 tax payment)
6. February sale (no off-set, taxable page 1 using tax benefit rule)

STATEMENT OF SETTLEMENT

SELLER'S ☐ PURCHASER'S ☒

PROPERTY ADDRESS Lots 7, 8, 9 and 10, Block 214, City of Clearwood

SELLER T. E. Moore PURCHASER M. L. Lowry

SETTLEMENT DATE August 13, 1975 DATE OF PRORATION August 13, 1975

LEGAL DESCRIPTION:

	Debit		Credit	
1. Selling Price	62,500	00		
2. Deposit, paid to			5,000	00
3. Trust Deed, payable to				
4. Trust Deed, payable to				
5. Trust Deed, payoff to				
6. Interest on Loan Assumed				
7. Title Ins. Premium				
8. Abstracting: Before Sale				
9. After Sale				
10. Title Exam. by				
11. Recording: Warranty Deed	4	50		
12. Trust Deed				
13. Release				
14. Other				
15. Documentary Fee				
16. Certificate of Taxes Due				
17. Taxes for Preceding Year(s) 1974 taxes = $328.00				
18. Taxes for Current Year 224 days @ $.898630 per day			201	29
19. Tax Reserve				
20. Special Taxes				
21. Personal Property Taxes				
22. Hazard Ins. Prem. Assumed—Policy No. Co.				
$ Yr. Term Expires				
Premium $ Days Unused at ¢ per day				
23. Premium for New Insurance				
24. Hazard Ins. Reserve				
25. FHA Mortgage Ins. Assumed				
26. FHA Mortgage Ins. Reserve				
27. Loan Service Fee (Buyer)				
28. Loan Discount Fee (Seller)				
29. Interest on New Loan				
30. Survey and/or Credit Report				
31. Appraisal Fee				
32. Water and/or Sewer				
33. Rents				
34. Security Deposits				
35. Loan Transfer Fee				
36. Loan Payment Due				
37. Broker's Fee				
38. *Realty Tax Service & Amortization Schedule*				
Sub-Totals	62,504	50	5,201	29
Balance due to/from Seller				
Balance due XX/from Buyer			57,303	21
TOTALS	62,504	50	62,504	50

The above figures do not include sales or use taxes on personal property

APPROVED and ACCEPTED

Purchaser/Seller ____________________ Broker ____________________

Purchaser/Seller ____________________ By ____________________

STATEMENT OF SETTLEMENT

SELLER'S ☒ PURCHASER'S ☐

PROPERTY ADDRESS Lots 7, 8, 9 and 10, Block 214, City of Clearwood

SELLER T. E. Moore

PURCHASER M. L. Lowry

SETTLEMENT DATE August 13, 1975

DATE OF PRORATION August 13,1975

LEGAL DESCRIPTION

	Debit		Credit	
1. Selling Price			62,500	00
2. Deposit, paid to				
3. Trust Deed, payable to				
4. Trust Deed, payable to				
5. Trust Deed, payoff to				
6. Interest on Loan Assumed				
7. Title Ins. Premium	212	00		
8. Abstracting: Before Sale				
9. After Sale				
10. Title Exam. by				
11. Recording: Warranty Deed				
12. Trust Deed				
13. Release				
14. Other				
15. Documentary Fee				
16. Certificate of Taxes Due	5	00		
17. Taxes for Preceding Year(s) 1974 taxes = $328.00				
18. Taxes for Current Year 224 days @ $.898630 per day	201	29		
19. Tax Reserve				
20. Special Taxes				
21. Personal Property Taxes				
22. Hazard Ins. Prem. Assumed—Policy No. Co.				
$ Yr. Term Expires				
Premium $ Days Unused at ¢ per day				
23. Premium for New Insurance				
24. Hazard Ins. Reserve				
25. FHA Mortgage Ins. Assumed				
26. FHA Mortgage Ins. Reserve				
27. Loan Service Fee (Buyer)				
28. Loan Discount Fee (Seller)				
29. Interest on New Loan				
30. Survey and/or Credit Report				
31. Appraisal Fee				
32. Water and/or Sewer				
33. Rents				
34. Security Deposits				
35. Loan Transfer Fee				
36. Loan Payment Due				
37. Broker's Fee	4,375	00		
38. *Realty Tax Service & Amortization Schedule*				
Sub-Totals	4,793	29	62,500	00
Balance due to ~~from~~ Seller	57,706	71		
Balance due to/from Buyer				
TOTALS	62,500	00	62,500	00

The above figures do not include sales or use taxes on personal property

APPROVED and ACCEPTED

Purchaser/Seller

Broker

Purchaser/Seller

By

Form **2119**

Department of the Treasury
Internal Revenue Service (0)

Sale or Exchange of Principal Residence

▶ See instructions on back.

▶ Attach to Form 1040 for year of sale (see instruction C).

OMB No. 1545-0072

1981
24

Note: *Do not include expenses you are deducting as moving expenses.*

Name(s) as shown on Form 1040

Your social security number

		Yes	No
1 (a)	Date former residence sold ▶		
(b)	Enter the face amount of any mortgage, note (for example second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale ▶	▨	▨
(c)	Have you ever postponed any gain on the sale or exchange of a principal residence?		
(d)	If you were on active duty in the U.S. Armed Forces or outside of the U.S. after the date of sale of former residence, enter dates. From to	▨	▨
2 (a)	Date you bought new residence. (If none bought, so state). ▶	▨	▨
(b)	If you constructed new residence, date construction began ▶ date occupied ▶	▨	▨
(c)	Did you use both the old and new properties as your principal residence?		
(d)	Are any rooms in either residence rented out or used for business for which a deduction is allowed? (If "Yes" do not include gain on the rented or business portion in line 7; instead include in income on Form 4797.)		

Part I Computation of Gain and Adjusted Sales Price

3 Selling price of residence. (Do not include selling price of personal property items.) 3

4 Commissions and other expenses of sale not deducted as moving expenses 4

5 Amount realized (subtract line 4 from line 3) 5

6 Basis of residence sold 6

7 Gain on sale (subtract line 6 from line 5). (If line 6 is more than line 5, enter zero and do not complete the rest of form.) If you bought another principal residence during the allowed replacement period or you elect the one time exclusion in Part III, continue with this form. Otherwise, enter the gain on Schedule D (Form 1040), line 2a or 9a. 7

If you haven't replaced your residence, do you plan to do so within the replacement period? ☐ Yes ☐ No

(If "Yes" see instruction C.)

8 Fixing-up expenses (see instructions for time limitations.) 8

9 Adjusted sales price (subtract line 8 from line 5) 9

Part II Computation of Gain to be Postponed and Adjusted Basis of New Residence

10 Cost of new residence 10

11 Gain taxable this year (Subtract line 10 from line 9. Do not enter more than line 7.) If line 10 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 2a or 9a. If you were 55 or over on the date of sale, see Part III 11

12 Gain to be postponed (subtract line 11 from line 7) 12

13 Adjusted basis of new residence (subtract line 12 from line 10) 13

Part III Computation of Exclusion, Gain to be Reported, and Adjusted Basis of New Residence

		Yes	No
14 (a)	Were you 55 or over on date of sale?		
(b)	Was your spouse 55 or over on date of sale? (If you answered "No" to 14(a) and 14(b), do not complete the rest of form.)		
(c)	If you answered "Yes" to 14(a) or 14(b) did you own and use the property sold as your principal residence for a total of at least 3 years (except for short temporary absences) of the 5-year period before the sale? (If you are 65 or over and 1(a) is before 7/26/81, see instruction D.)		
(d)	If you answered "Yes" to 14(c), do you elect to take the once in a lifetime exclusion of the gain on the sale? (If "Yes," check yes box and complete the rest of Part III. If "No," return to Part II, line 12 above.)		
(e)	At time of sale, was the residence owned by: ☐ you, ☐ your spouse, ☐ both of you?	▨	▨
(f)	Social security number of spouse, at time of sale, if different from number on Form 1040 ▶ (Enter "none" if you were not married at time of sale.)	▨	▨

15 (a) If line 1(a) is before 7/21/81, enter the smaller of line 7 or $100,000 ($50,000, if married filing separate return) . . 15(a)

(b) If line 1(a) is after 7/20/81, enter the smaller of line 7 or $125,000 ($62,500, if married filing separate return) . . . 15(b)

16 Part of gain included (subtract line 15a or 15b from line 7) 16

17 Cost of new residence. If you did not buy a new principal residence, enter "None." Then enter the gain from line 16 on Schedule D (Form 1040), line 9a, and do not complete the rest of Form 2119 17

18 Gain taxable this year. (Subtract the sum of lines 15 and 17 from line 9. The result cannot be more than line 16.) If line 17 plus line 15 is more than line 9, enter zero. Enter any taxable gain on Schedule D (Form 1040), line 9a 18

19 Gain to be postponed (subtract line 18 from line 16) 19

20 Adjusted basis of new residence (subtract line 19 from line 17) 20

For Paperwork Reduction Act Notice, see back of form.

Form **2119** (1981)

Paperwork Reduction Act Notice.—We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Instructions

A. Purpose of Form.—Use this form to report any gain on the sale of your principal residence whether or not you replace it with a new principal residence. A taxable gain must be reported on Schedule D (Form 1040). A loss is not deductible.

B. Postponement of Gain on Sale of Principal Residence.—Unless you elect to exclude it according to Instruction D, gain from the sale of your principal residence may have to be postponed if:

(1) within 18 months (2 years if line 1(a) is after 7/20/81) before or 2 years after the sale, you buy and occupy another principal residence; or

(2) before the sale or within 2 years after the sale, you begin construction of a new principal residence and occupy it within 18 months (2 years if line 1(a) is after 7/20/81) before and 2 years after the sale.

Use Parts I and II to figure the gain that must be postponed.

Note: *If you are on active duty in the U.S. Armed Forces for more than 90 days or living and working outside the United States, after the date of sale of your old residence, that time is not counted in figuring your replacement period. However, this replacement period is never permitted to extend beyond 4 years after the date of sale.*

Any gain postponed in the year you sell your old residence is subtracted from the cost of your new residence, giving you a lower cost basis in your new residence. If you sell the new residence in a later year and do not replace it, the postponed gain will be taxed in that year. However, see instruction D. If you do replace it, you may continue to postpone the gain.

Principal Residence.—Postponing gain applies only to the sale of your principal residence. Usually, the home in which you live is your principal residence. For example, this may be a house, houseboat, house trailer, cooperative apartment, or condominium.

If you have more than one residence, your principal residence is the one you physically occupy most of the time. If you change your principal residence more than once during the replacement period, only the last residence bought qualifies as your new residence for the purpose of postponing gain, unless you sold the residence because of a job relocation and are allowed a moving expense deduction.

C. When to File.—File this form for the year of sale whether or not you have already replaced your principal residence.

If you plan to replace your residence but have not done so by the time you file your return, and the replacement period has not expired, attach Form 2119 to Form 1040 for the year of sale, but complete lines 1(a), 2(a), and 3 through 7 only.

If you replace your residence after your return is filed but within the replacement period, and it costs you at least as much as the adjusted sales price of your old residence, you should notify in writing the Director of the Internal Revenue Service Center where you filed your return and attach another Form 2119 for the year of sale.

If your new residence costs less than the adjusted sales price of your old residence, or if you do not buy or start construction of your new residence within the replacement period, you must file Form 1040X with attached Schedule D and a new Form 2119 for the year of sale showing the amount of the gain you are required to report. Interest will be charged on the additional tax due on this gain.

If you paid tax on the gain from the sale of your old residence, and buy a new residence within the replacement period, file Form 1040X with attached Form 2119 if you are entitled to a refund.

D. Exclusion of Gain on Sale of Residence.—If you sold your principal residence, you may elect to exclude from your income part or all of the gain on the sale if:

(1) you were 55 or over on the date of the sale;

(2) you owned and occupied your residence for periods totaling at least 3 years within the 5 year period ending on the date of sale; and

(3) neither you nor your spouse has previously elected this exclusion after July 26, 1978.

Caution: However, you may choose not to make this election this year, since it is a once-in-a-lifetime election.

If you meet these requirements, you may elect to exclude up to the amounts specified on line 15 of Form 2119. Make the election in Part III of Form 2119. If you are 65 or over on the date of sale, you may substitute 5 of the last 8 years for 3 of the last 5 years if the sale took place before 7/26/81.

The amount of gain excluded from your income is never taxed. The balance of the gain, in excess of the amount excluded, is taxed in the year of sale, unless you buy a new residence during the replacement period.

Generally, you may make or revoke an election to exclude gain on the sale of your principal residence at any time within 3 years from the due date, including extensions, of the return for the year the residence was sold. Use Form 1040X to amend your return.

If you and your spouse jointly hold the property and you file a joint return, only one of you must meet the age, ownership, and use requirements.

If the property is not jointly owned, only the spouse who owns the property must meet the requirements regardless of filing status on Form 1040.

If you are married at the time of sale, both you and your spouse must make the election to exclude the gain. If you do not file a joint return with that spouse, he or she must indicate consent to the election by writing in the bottom margin of Form 2119 or on an attached statement, "I consent to Part III election," and signing.

The election does not apply separately to you and your spouse. If you and your spouse make an election during marriage and later divorce, no further elections are available to either of you or to your new spouse if you remarry.

E. Consent of You and Your Spouse to Apply Separate Gain on Sale of Old Residence to Basis of New Residence.—Sometimes one spouse may own the old residence separately, but both spouses may own the new residence jointly (or vice versa). In such cases, the gain from the sale of the old residence on which tax is postponed and the resulting adjustment to the basis of the new residence may be divided between them. You and your spouse may make such a division only if:

(1) both of you use the old and the new residences as your principal residence; and

(2) both of you indicate consent in the bottom margin of Form 2119 or o an attached statement by writing: "We consent to have the basis of the new residence reduced by the gain on sale of the old residence." Both of you must sign this consent.

If both of you do not consent, you must determine the recognition of gain from the sale of the old residence in the regular way with no division.

Line-By-Line Instructions

Line 3. Selling Price of Residence.—Enter the amount of money you received, the amount of all notes, mortgages, or other liabilities to which the property was subject, and the fair market value of any other property you received.

Note: *Report interest from a note as income when received.*

Line 4. Commissions and Other Expenses of Sale.—This includes sales commissions, advertising expenses, attorney and legal fees, etc., incurred in order to sell the old residence. Loan charges, such as "loan placement fees" or "points" charged the seller, generally are selling expenses. Do not include amounts deducted as moving expenses.

Line 6. Basis of Residence Sold.—This includes the original cost of the property, commissions, and other expenses incurred in its purchase, plus the cost of improvements. Subtract any depreciation allowed or allowable, any casualty loss taken on the residence, any energy credit taken, and the postponed gain on the sale or exchange of a previous principal residence. For more information, see **Publication 551,** Basis of Assets.

Line 8. Fixing-up Expenses.—These are decorating and repair expenses incurred only to assist the sale of the old property. They must have been incurred for work performed within 90 days before the contract to sell was signed, and must have been paid for not later than 30 days after the sale. Do not include capital expenditures for permanent improvements or replacements which are added to the basis of the property sold.

Note: *Fixing-up expenses are considered* **only** *in figuring adjusted sales price to determine the gain on which tax is postponed. They are* **not** *deductible in determining the actual profit on the sale of your old residence.*

Lines 10 and 17. Cost of New Residence.—The cost of your new residence includes one or more of the following:

(a) cash payments;

(b) the amount of any mortgage or other debt on the new residence;

(c) commissions and other purchase expenses you paid that were not deducted as moving expenses;

(d) construction costs (when you build your own residence) made during the replacement period;

(e) if you buy rather than build your new residence, all capital expenditures made within the replacement period.

For more information, please get **Publication 523,** Tax Information on Selling Your Home, from most IRS offices.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1981—O-343-143 EI# 430814328

Form **6252**

Department of the Treasury
Internal Revenue Service

Computation of Installment Sale Income

▶ See instructions on back. ▶ Attach to your tax return.
Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228

1981

Name(s) as shown on tax return | Identifying number

A Kind of property and description ▶

B Date acquired (month, day, and year) ▶ C Date sold (month, day, and year) ▶

D Was property sold to a related party after May 14, 1980? (See instruction C) ☐ Yes ☐ No

If you checked "Yes," you must complete Part III.

Part I Computation of Gross Profit and Contract Price *(Complete this part for year of sale only.)*

1 Selling price including mortgages and other indebtedness (Do not include interest.)		1
2 Mortgages and other indebtedness purchaser assumes or takes property subject to (see instructions)	2	
3 Subtract line 2 from line 1	3	
4 Cost or other basis of property sold	4	
5 Depreciation allowed or allowable	5	
6 Adjusted basis (subtract line 5 from line 4)	6	
7 Commissions and other expenses of sale	7	
8 Add line 6 and line 7		8
9 Gross profit (subtract line 8 from line 1). If result is zero or less, do not complete rest of form		9
10 Subtract line 8 from line 2. If line 8 is more than line 2, enter zero		10
11 Contract price (add line 3 and line 10)		11

Part II Computation of Taxable Part of Installment Sale *(Complete this part for year of sale and any year a payment is received.)*

12 Gross profit ratio (divide line 9 by line 11) (for years after the year of sale, see instructions)		12
13 For year of sale only—enter amount from line 10 above; otherwise enter zero		13
14 Payments received during year		14
15 Add lines 13 and 14		15
16 Payments received in prior years	16	
17 Taxable part of installment sale (multiply line 15 by line 12)		17
18 Part of line 17 that is ordinary income under recapture rules (see instructions)		18
19 Subtract line 18 from line 17. Enter on Schedule D or Form 4797 (see instructions)		19

Part III Information and Computation for Related Party Installment Sale *(Complete this part only if you answered "Yes" to question D and did not receive the final installment payment in 1981.)*

E Name, address, and taxpayer identifying number of related party

F Did the related party resell or dispose of this property, acquired from you after May 14, 1980, during 1981? ☐ Yes ☐ No

G If the answer to question F is "Yes," complete lines 20 through 27 below unless one of the following conditions is met (check only the box that applies).

☐ The first disposition was a sale or exchange of stock to the issuing corporation.

☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.

☐ The second disposition occurred after the death of the original seller or purchaser.

☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. (See instruction C.)

20 Selling price of property sold by related party	20
21 Enter contract price from line 11 for year of first sale	21
22 Enter the smaller of line 20 or line 21	22
23 Total payments received by the end of tax year. Add lines 15 and 16	23
24 Subtract line 23 from line 22. If line 23 is more than line 22, enter zero	24
25 Multiply line 24 by line 12 for year of first sale	25
26 Part of line 25 that is ordinary income under recapture rules (see instructions)	26
27 Subtract line 26 from line 25. Enter on Schedule D or Form 4797 (see instructions)	27

For Paperwork Reduction Act Notice, see back of form.

Form **6252** (1981)

Instructions

(Section references are to the Internal Revenue Code)

Paperwork Reduction Act Notice

We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A. Purpose

Use this form to report the following if you are to receive any payment (including payments from sales reported on the installment method prior to 1980) in a tax year after the year of sale:

- A sale of real property that is not made by a dealer.
- A casual sale of personal property, other than inventory, that is not made by a dealer.

You must use this form unless you elect not to report the sale on the installment method. If you want to elect out, see the instructions for your Schedule D or Form 4797. If you do not use the installment method, report the sale on your Schedule D or Form 4797.

Dealers in personal property and dealers in real property may use the installment method for reporting gain, but they should not use this form.

B. What Parts to Complete

For the Year of Sale—Complete questions A through D, Part I, and Part II.

For Years After the Year of Sale—Complete questions A through D and Part II, *for any year in which you receive a payment from an installment sale.*

Related Party Sales—If you sold marketable securities to a related party defined in instruction C, complete the form every year of the term of the installment agreement, whether or not you received a payment. For a year after the year of sale, complete only questions A through D and Part III if you did not receive a payment during the year. (If you received a payment, also complete Part II.) If you sold property other than marketable securities to a related party, complete the form for 2 years following the year of sale, regardless of whether you received any payments. If during this 2-year period you receive no payments, complete questions A through D, and Part III. After this 2-year period, follow the general rules in "For Years After the Year of Sale" above. Do not complete Part III if you receive the final installment payment during the year.

C. Installment Sales to Related Party

A related party is your spouse, child, grandchild, parent, or a related corporation, partnership, estate, or trust.

If one of the exceptions in Part III(G) applies, check the appropriate box and do not complete lines 20 through 27. If you can establish that tax avoidance was not a principal purpose for either disposition, attach an explanation. The following are some examples of non-tax avoidance:

- The second disposition is also an installment sale and the payment terms are equal to or longer than the first installment sale.
- The property sold is not real property or real property improvements, and it is used by the related purchaser as inventory for sale in the ordinary course of conducting a trade or business.
- The second disposition is a charitable contribution but not a bargain sale, and the property is capital-gain type property for which an election under section 170(b)(1)(C)(iii) is not in effect.
- Certain tax-free transfers, certain like-kind exchanges, and in some cases bankruptcy of the related purchaser.

D. Sale of Depreciable Property to Related Party

If you sell depreciable property to either a spouse or an 80%-owned entity, installment sale rules do not apply, unless it is established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for the sale.

For more information, including single sales of several assets, disposition of installment obligations, like-kind exchanges, and change in selling price, see **Publication 537**, *Installment Sales, and the regulations under section 453.*

Line-By-Line Instructions

For purposes of this form, do not include interest or carrying charges received, or unstated interest. For unstated interest, see **Publication 537.**

Line 1—Selling price.—Enter the money, face amount of the installment obligation, and the fair market value of other property, such as the buyer's note, you received or will receive in exchange for the property sold. Include on this line any mortgage or other indebtedness the buyer assumes or takes the property subject to.

If there is no stated maximum sales price, such as in a contingent sale, attach a schedule showing the computation of gain, and enter the taxable part on line 17 (and 25 if Part III applies). See the regulations under section 453.

Line 2—Mortgage and other indebtedness.—Enter only mortgages (or other indebtedness) the buyer assumes from the seller or takes the property subject to. Do not include new mortgages the buyer gets from a bank or other source.

For information on wrap around mortgages, see regulations section 15A.453-1(b)(3)(ii).

Line 4—Cost or other basis of property sold.—Enter the original cost and other expenses incurred in the purchase of the property. Also include the cost of improvements, etc., minus any casualty losses previously allowed and, if a principal residence, minus any postponed gain from a previous principal residence. For more information, see **Publication 551, Basis of Assets.**

Line 5—Depreciation allowed or allowable.—Enter all depreciation or amortization you deducted or should have deducted from the date of purchase until the date of sale.

Line 7—Commissions and other expenses of sale.—Enter sales commissions, advertising expenses, attorney and legal fees, etc., incurred in selling the property.

Line 12—Gross profit ratio.—Enter the gross profit ratio determined in the year of sale whether or not Form 6252 was completed for that year.

Line 14—Payments received during the year.—Enter all money you received and the fair market value of any property you received in 1981. Do not include any mortgage on the property. If you did not receive any payments in 1981, enter zero.

If an amount was entered on line 24 in prior years, do not include it on this line. However, it must be included on line 16.

Line 16—Payments received in prior years.—Enter all money and the fair market value of property you received in years before 1981 from the sale.

Lines 18 and 26—If the property you sold was trade, business, or income producing property held more than 1 year, and depreciation or amortization was allowed, part or all of the gain may be subject to recapture as ordinary income. See Form 4797 and instructions. If it is, complete and attach Form 4797, Part III in the year of sale and show the entire selling price, basis, and gain. However, do not include installment sales in the totals on lines 24, 25, and 26 of Form 4797.

The taxable part of an installment sale must be treated as ordinary income until all the recapture has been used up. Therefore, enter on line 18 or 26 the amount otherwise reportable on line 25 of Form 4797 to the extent of line 17 or 25 of Form 6252.

Enter the amount from line 18 or 26 on Form 4797, line 8(b). If Form 4797 is not otherwise required, enter this amount directly on your tax return (Form 1040, 1120, 1065, etc.) on the line identified as from Form 4797. Identify it as from Form 6252.

Lines 19 and 27—Enter the amount from lines 19 and 27 on your Schedule D or Form 4797. On Schedule D, use the line identified as from Form 6252. On Form 4797, enter this amount on line 2(b).

Line 20—If in 1981, the related party sold only part of the property from the original sale, enter the selling price of the part of the property resold. If part is sold one year and part is sold in a later year, enter the cumulative selling price. Then complete lines 21 to 27 as indicated on the form.

PROBLEMS FOR STUDENTS TO WORK IN CLASS

OR AS HOMEWORK

SESSION 16: Sale of Personal Residence, Installment Sales

1. Ruby Diamond had bought her principal residence in 1964 for $25,000. The escrow papers showed a legal fee and other additional purchase costs totaling $387. During the years that she owned the house she installed carpeting, air conditioning and other improvements, all of which cost $6,350.

   Ms. Diamond dicided to put her home up for sale in April, she paid a contractor $600 to make termite reapirs and paint the moldings.

   On May 5, Ruby sold the house for $45,000. Expenses of the sale were $3,101 as listed on the escrow papers.

   In July of the same year, she bought a new home for $60,000, paying $494 for additional purchase costs and $1,200 to have a chain link fence installed.

   a. Amount realized is ________
   b. Gain realized is ________
   c. Adjusted sales price is ________
   d. Gain recognized is ________
   e. Adjusted basis of new residence is ________

2. Use the same facts as in #1, except that the selling price of the old residence is $38,000.

   a. Amount realized is ________
   b. Gain realized is ________
   c. Adjusted basis of new residence is ________

3. Use the same facts as in $1, except that the fixing-up expenses are $1,750.

   a. Amount realized is ________
   b. Gain realized is ________
   c. Adjusted sales price is ________
   d. Gain recognized is ________
   e. Adjusted basis of new residence is ________

4. Bob's employer transferred him to Detroit in 1979 where he bought a house for $80,000. In 1981 Bob was transferred by his employer to Chicago. He sold his house in Detroit for $75,000. His employer paid him $11,000 to cover the selling expenses, loss in value of the house and inconvenience. He purchased a home in Chicago for $70,000.

   a. What is Bob's basis in his new home?
   b. What was his gian or loss on the old home?
   c. Does he have any gain or income to report from this transaction?

5. Taxpayer sells a residence, which has a basis of $66,500. To make it more attractive to buyers, the outside was painted at a cost of $300 in April, 1981. The taxpayer paid for the painting when the work was finished. In May 1981, the house was sold for $72,500. Broker's commissions and other selling expenses were $4,500. In October 1981, the taxpayer bought a new residence for $67,000.

   Compute:
   a. Amount realized
   b. Gain realized
   c. Adjusted sales price
   d. Gain recognized
   e. Adjusted basis of new residence

6. The facts are the same as #5, except that the selling price of the old residence was $71,000.

   Compute:
   a. Amount realized
   b. Gain realized
   c. Adjusted basis of the new residence

7. The facts are the same as in #5 except that the fixing-up expenses were $1,100.

   Compute:
   a. Amount realized
   b. Gain realized
   c. Adjusted sales price
   d. Gain recognized
   e. Adjusted basis of new residence

8. Susan sold her vacation home, a long-term capital asset, in 1980. The selling price was $60,000. The buyer paid a $10,000 downpayment with the remainder to be paid in 10 equal annual installments of $5,000 at 12% interest. Susan's basis in the house was $40,000. Assume no selling expenses. Susan reported this as an installment sale.
   a. What is her gross profit percentage?
   b. What amount does she report in 1980?
   c. Assume she receives full payment in 1981, what amount does she report then?

9. George Jones buys Paul Smith's pleasure cruiser for $500, plus Government bonds (payable on demand) worth $2,800. These bonds, which mature in 3 years, have a face value of $3,000.
   a. The transaction is:
      1. A deferred-payment sale
      2. A deferred-payment sale qualifying as an installment sale
      3. Neither (1) nor (2)

Situation 1: Sale of a Personal Residence

Basil and Ivy Planter were transferred by his company from Odessa, CA., to Salem, OR, on June 2, a total distance of 800 miles. They sold their home in Odessa, and purchased a new home in Salem. His SS# is 000-11-2222.

Moving Schedule: The total van costs were $920, plus $46 for gas for the van. They followed the van in their personal car, and spent $24 for food on the trip and $30 for one night's lodging enroute.

They made a pre-move trip on June 4, to look for a new home. On this trip, they used their own car, and spent $78 for meals and $70 for lodging.

After they arrived in Salem, they rented an apartment for $200 per month, and their food for 30 days was $180.

Sale of old house: They sold the Odessa house for $52,500, and their closing statement showed $3,877 in allowable sales costs. They also had to make one trip back to Odessa to close the sale, using their own car (use 20 cents/mile for this trip). Their food came to $90 and lodging $75. Also, they had $16 costs in long-distance phone calls concerning this sale. The date on the closing statement was August 24.

They had deferred $3,500 from their San Francisco home to their Odessa home on their 1974 return. In addition, their improvements totaled $3,688. The Odessa home originally cost $26,162.

__Purchase of new home:__ One their Salem home on Grant St., the closing statement showed September 12, and they occupied their new home on September 13. There were $56 worth of "purchase costs", which you will elect to take on the moving schedule. The purchase price was $59,750.

__To Do__:

1. Complete the Form 2119, using the above data. Note that there was $200 of allowable "fixing up costs".
2. Complete concurrently the moving expense schedule, Form 3903. Be sure that lines 9 and 10 both total $3,000, and that lines 6,7, & 8 add up to $3,000. Use line 7 as the adjusting line.

NOTE: Mr. Planter is over 55, but ovviously does not take the special $125,000 exclusion. Why?

Situation 2:

Lincoln and Mercedes Ford had the same data as the Planters in Situation 1, with the following differences:

1. The Fords moved to Salem from Stayton, OR. Since Stayton is only about 12 miles from Salem, no moving expenses are allowable. Total expenses of the sale are $4378.
2. The Fords do not plan to reinvest. His SS# is 222-00-1111.
3. They received a downpayment of $12,000 on the Stayton house and the buyers also made additional payments on the principal, which totaled $851.

NOTE: The Ford's being over 55 could have elected the exclusion and had no taxable income from this sale.

PROBLEM: Prepare Form 6252 and Schedule D.

3. Brown sold his residence for $100,000. Other information relating to the sale is as follows" selling expenses $4,000, fixing-up expenses $400, adjusted basis $58,000, cost of new residence $87,000. The amount realized by Brown is? $____________

4. The adjusted sales price of the residence sold by Brown is: $____________

5. Brown realized a gain of: $____________

6. Brown must recognize a gain of: $____________

7. The basis of Brown's new residence is: $____________

8. Ames, age 60, sold his personal residence for $192,000 and elected to use the special rule applicable to the sale of a personal residence available to older taxpayers. Selling expenses were $5,000, the adjusted basis was $80,000, and fixing-up expenses were $800. Assuming that Ames does not purhase a new residence he must recognize a gain of : $____________

SESSION 17
OTHER TAXES AND PAYMENTS. MISCELLANEOUS

Reading Assignment: Publication 17, Ch. 4-5
Review Ch. 1 & 36
IRS Instruction Pamphlets &
Oregon Instruction Pamphlets
Publication 225, Ch. 13
Publication 334, Ch. 34
Balance of 1040 pamphlet

A. VOCABULARY

Alternative minimum tax
Amended returns
Annualizing
Application for tentative refund
Claim for refund
Decedent
Declaration of estimated tax
Earned income credit
Exceptions #1,2,3,4
Extensions
Excess FICA
Overpayment credit
Minimum tax
Penalties and interest
Taxes on tips (lines 51a and 51b)
10-year averaging (lump sum distribution)
Underpayment of estimated tax penalty

B. INTERVIEW QUESTIONS

1. If client has additonal income: "Has a declaration of estimated tax been filed and any payments made?"
2. Last years federal return is necessary to determine if overpayment was treated as a credit to estimate.
3. If indicated, explain to client the Form 2210 and penalty assessed and fee for preparing.
4. Was any income received at certain times or was it all evenly distributed? (Always try exception 4)
5. When amending returns, ask client if any additional changes in income or deductions for year being amended.
6. When amending returns (as well as for income averaging) the "proper" amounts for the years involved must be used even if they were not used on the actual filed returns.

Form **1040-ES**

Department of the Treasury
Internal Revenue Service

Declaration of Estimated Tax for Individuals

OMB No. 1545-0087

1982

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

"Estimated tax" is the amount of tax you expect to owe for the year after subtracting the amount of tax you expect to have withheld and the amount of any credits you plan to take. You do not have to file a declaration of estimated tax if your 1982 income tax return will show (1) a tax refund or (2) a tax balance due of less than $200. For additional information, get **Publication 505,** Tax Withholding and Estimated Tax.

A. Who Must File.—The rules below are for U.S. citizens or residents and for residents of Puerto Rico, Virgin Islands, Guam, or American Samoa. If you are a nonresident alien, use Form 1040–ES (OIO). **Note:** After you file this declaration-voucher, you will receive additional declaration-vouchers to use for an amended estimate or for additional estimated tax payments.

You must make a declaration if your estimated tax is $200 or more AND:

(1) Your expected gross income for 1982 includes more than $500 in income not subject to withholding, or

(2) Your expected gross income is more than:

- $20,000 if you are single, a head of household, or qualifying widow or widower.
- $20,000 if you are married, can file a joint declaration, and your spouse has not received wages for 1982.
- $10,000 if you are married, can file a joint declaration, and both of you have received wages for 1982.
- $5,000 if you are married and cannot file a joint declaration. (No joint declaration may be made if: (1) either you or your spouse is a nonresident alien, (2) you are separated under a decree of divorce or separate maintenance, or (3) you have different tax years.)

Note: *If you must file a declaration and receive salaries and wages, you may not be having enough tax withheld during the year. To avoid making estimated tax payments, consider asking your employer to take more tax out of your earnings. To do this, file a new Form W–4, Employee's Withholding Allowance Certificate, with your employer and make sure you will not owe $200 or more in tax. You may also have tax withheld from certain pension, annuity, or sick pay payments you receive. To do so, determine the proper amount to be withheld by dividing your estimated tax by the number of payments you expect to receive during the calendar year from which tax will be withheld and file Form W–4P with the person from whom you receive payment.*

B. How to Figure Your Estimated Tax.—Use the Estimated Tax Worksheet on page 2, the 1982 Tax Rate Schedules in these instructions, and your 1981 tax return as a guide for figuring your estimated tax.

Most of the items on the worksheet are self-explanatory. However, the instructions below provide additional information for filling out certain lines. The Economic Recovery Tax Act of 1981, Public Law 97–34, provides for a deduction by two-earner married couples. The act allows couples filing a joint return a deduction in computing adjusted gross income equal to a percentage of the lower earning spouse's qualified earned income. See **Publication 505,** Tax Withholding and Estimated Tax for details.

Caution: Generally, you are required to itemize your deductions if:

- you have unearned income of $1,000 or more and can be claimed as a dependent on your parent's return,
- you are married filing a separate return and your spouse itemizes deductions,
- you file Form 4563, OR
- you are a dual status alien.

For more information, see the 1981 Instructions for Form 1040. If you must itemize and line 2b of the Estimated Tax Worksheet is more than line 2a, subtract 2a from 2b. Add this amount to line 1 of the worksheet and enter the total on line 3. Disregard the instructions for line 2c and line 3 on the worksheet.

Line 7—Additional taxes.—Enter on line 7 any additional taxes from:

- Form 4970, Tax on Accumulation Distribution of Trusts,
- Form 4972, Special 10-Year Averaging Method,
- Form 5544, Multiple Recipient Special 10-Year Averaging Method, OR
- Section 72(m)(5) penalty tax.

Line 12—Self-employment tax.—If you and your spouse file a joint declaration and both have self-employment income, figure the estimated self-employment tax separately. Enter the total amount on line 12.

C. How to Use the Declaration-Voucher.—

(1) Enter your name, address, and social security number in the space provided on the declaration-voucher. If you are filing a joint declaration-voucher, your spouse's name and social security number should be included on the voucher. If you file a joint declaration-voucher and have different last names, please separate them with an "and." For example: "John Brown and Mary Smith."

(2) Enter the amount shown on line 17 of the worksheet in Block A of the declaration-voucher.

(3) Enter the amount shown on line 18 of the worksheet on line 1 of the declaration-voucher.

(4) If you paid too much tax on your 1981 Form 1040, you may have chosen to apply the overpayment to your estimated tax for 1982. If so, enter in Block B the overpayment from 1981.

You may apply all or part of the overpayment to any voucher. Enter on line 2 the amount you want to apply to the voucher you are using. Subtract line 2 from line 1 and enter the amount of the payment on line 3. If you are filing a declaration (or an amended declaration), mail it to the Internal Revenue Service even though line 3 is zero. File the remaining vouchers only when line 3 is more than zero.

(5) Sign the declaration-voucher and tear off at the perforation.

(6) Attach, but do not staple, your check or money order to the declaration-voucher. Make check or money order payable to "Internal Revenue Service." Please write your social security number and "1982 Form 1040–ES" on your check or money order.

For each later declaration-voucher, which you will receive in the mail, follow instruction (1) above, fill in lines 1, 2, and 3 of the form, attach check or money order, and mail.

D. When to File and Pay Your Estimated Tax.—The general rule is that you must file your declaration by April 15, 1982. You may either pay all of your estimated tax with the declaration or pay in four equal amounts that are due by April 15, 1982; June 15, 1982; September 15, 1982; and January 17, 1983. Exceptions to the general rule are listed below:

(1) Other declaration dates.—In some cases, such as a change in income, you may have to file a declaration after April 15, 1982. The filing dates are as follows:

If the requirement is met after:	Filing date is:
● April 1 and before June 2	June 15, 1982
● June 1 and before Sept. 2	Sept. 15, 1982
● September 1	Jan. 17, 1983

Pay your estimated tax in equal amounts on the required filing dates.

(2) Your return as a declaration.—If you file your 1982 Form 1040 by January 31, 1983, and pay the entire balance due, then you do not have to—

- file the required amended declaration due on January 17, 1983.
- file your first declaration which would be due by January 17, 1983.
- make your last payment of estimated tax.

(3) Farmers and fishermen.—If at least two-thirds of your gross income for 1981 or 1982 is from farming or fishing, you may do one of the following:

- File your declaration by January 17, 1983, and pay all your estimated tax.

- Or file Form 1040 for 1982 by March 1, 1983, and pay the total tax due. In this case, you do not need to file a declaration for 1982.

(4) Fiscal year.—If your return is on a fiscal year basis, your due dates are the 15th day of the 4th, 6th, and 9th months of your fiscal year and the 1st month of the following fiscal year. If any date falls on a Saturday, Sunday, or legal holiday, use the next regular workday.

Note: *You may be required to make payments of past due amounts to avoid further penalty. You may have to make these payments if you do not file your declaration (or amended declaration) on time, or if you did not pay the correct amount for a previous payment date.*

If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your old name, you should attach a brief statement to the front of your 1982 income tax return. In it explain all the estimated tax payments you and your spouse made during the tax year, give the name of the Service Center where you made the payments, and give the name(s) and social security number(s) under which you made them.

E. Where to File Your Declaration-Voucher.—Mail your declaration-voucher to the **Internal Revenue Service Center** for the place where you live.

If you are located in:	Use this address:
New Jersey, New York City, and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other Counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
District of Columbia, Delaware, Maryland, Pennsylvania	Philadelphia, PA 19255
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Michigan, Ohio	Cincinnati, OH 45999
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
California, Hawaii	Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	Memphis, TN 37501
American Samoa	Philadelphia, PA 19255
Guam	Commissioner of Revenue and Trxation Agana, GU 96910
Puerto Rico (or if excluding income under section 933) Virgin Islands: Non-permanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	Department of Finance, Tax Division Charlotte Amalie, St. Thomas, VI 00801
A.P.O. or F.P.O. address of:	Miami—Atlanta, GA 31101 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201
Foreign country, U.S. citizens and those excluding income under Section 911 or 931	Philadelphia, PA 19255

F. Amended Declaration.—To amend your declaration you should follow the instructions in the 1040–ES Package, that you will get in the mail after you file this declaration-voucher.

G. Penalty for Failure to Pay Estimated Tax.—You may be charged a penalty for not paying enough estimated tax. The penalty does not apply if each payment is timely and:

- is at least 80% (66⅔% for farmers and fishermen) of the amount of income and self-employment taxes due (excluding minimum tax and alternative minimum tax) shown on your return for 1982, OR
- is based on one of the exceptions shown on Form 2210 (Form 2210F for farmers and fishermen).

1982 Estimated Tax Worksheet (Keep for your records—Do Not Send to Internal Revenue Service)

1	Enter amount of Adjusted Gross income you expect in 1982		1
2 a	If you plan to itemize deductions, enter the estimated total of your deductions. If you do not plan to itemize deductions, skip to line 2c and enter zero	2a	
b	Enter { $3,400 if married filing a joint return (or qualifying widow(er)) $2,300 if single (or head of household) $1,700 if married filing a separate return }	2b	
c	Subtract line 2b from line 2a (if zero or less, enter zero).		2c
3	Subtract line 2c from line 1		3
4	Exemptions (multiply $1,000 times number of personal exemptions)		4
5	Subtract line 4 from line 3.		5
6	**Tax.** (Figure tax on line 5 by using Tax Rate Schedule X, Y, or Z in these instructions. DO NOT use the Tax Table or Tax Rate Schedule X, Y, or Z in the 1981 Form 1040 Instructions.)		6
7	Enter any additional taxes from Instruction B		7
8	Add lines 6 and 7		8
9	Credits (credit for the elderly, credit for child and dependent care expenses, investment credit, residential energy credit, etc.)		9
10	Subtract line 9 from line 8.		10
11	Tax from recomputing a prior year investment credit		11
12	Estimate of 1982 self-employment income $..............; if $32,400 or more, enter $3,029.40; if less, multiply the amount by .0935 (see Instruction B for additional information)		12
13	Tax on premature distributions from an IRA		13
14	Add lines 10 through 13		14
15	**(a)** Earned income credit	15a	
	(b) Estimated income tax withheld and to be withheld during 1982	15b	
	(c) Credit for Federal tax on special fuels and oils (see Form 4136 or 4136–T)	15c	
16	Total (add lines 15(a), (b), and (c))		16
17	Estimated tax (subtract line 16 from line 14). If $200 or more, fill out and file the declaration-voucher; if less, no declaration is required at this time		17
18	If the first declaration-voucher you are required to file is due April 15, 1982, enter ¼ of line 17 here and on line 1 of your declaration-voucher(s)		18

Note: *If you are not required to file a voucher at this time, you may have to file by a later date. See Instruction D(1).*

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Form 1040-ES

Department of the Treasury
Internal Revenue Service

1982
Declaration-Voucher

OMB No. 1545-0087

A. Estimated tax $________
Fiscal year filers enter year ending ________ (month and year)

B. Overpayment from last year credited to estimated tax for this year $

1 Amount from line 18 on worksheet ▶	$
2 Amount of overpayment credit from last year (all or part) to be applied ▶	
3 Amount of this payment (subtract line 2 from line 1) ▶	$

File this form even if line 3 is zero.

Sign here ▶ ________ Your signature
▶ ________ Spouse's signature (if joint declaration)

Return this form with check or money order payable to the Internal Revenue Service

Please do not send cash or staple your payment to this voucher.

Please type or print

Your social security number
Spouse's number, if joint declaration
First name and middle initial (of both spouses if joint declaration)
Last name
Address (Number and street)
City, State, and ZIP code

For Paperwork Reduction Act Notice, see instructions on page 1.

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Page 3

RECIPROCALS (1981 Form 2210)

8-month periods (see worksheet on back)	22				Applicable

Part III How to Figure the Penalty (Complete lines 23 through 27 if none of the exceptions in Part II apply.)

23 Amount of underpayment (from line 17)	23				
24 Date you made payment or April 15, 1982, whichever is earlier	24	4-15-82	4-15-82	4-15-82	4-15-82
25 (a) Number of days after due date of payment to and including date of payment or January 31, 1982 whichever is earlier	25a	291	230	158	16
(b) Number of days from and including February 1, 1982 to and including date of payment or April 15, 1982 whichever is earlier	25b	74	74	74	74
26 (a) $\frac{\text{Number of days on line 25a}}{365}$ × 12% × amount on line 23	26a	.09567	07562	04537	00526
(b) $\frac{\text{Number of days on line 25b}}{365}$ × 20% × amount on line 23	26b	.04055	04055	04055	04055
27 Penalty (add amounts on lines 26(a) and (b)). Check the box below line 66 on Form 1040 and show this amount in the space provided. If you owe tax, add the penalty amount to the tax due and show the total on line 66. If you are due a refund, subtract the penalty amount from the overpayment you show on line 63.	27				

Form 2210 (1981)

For Paperwork Reduction Act Notice, see back of form.

DAILY RECIPROCAL (365 DAYS) 12% = 000328767
20% = 000547945

UNDERPAYMENT OF EXTIMATED TAX
WORKSHEET FOR EXCEPTIONS 3 & 4

FEDERAL 2210

EXCEPTION 4 – Use actual income for each period or AGI divided by 3/12, 5/12 and 8/12. .
Does not apply to the fourth quarter.

	A. Period 1 (1/1 - 3/31)	B. Period 2 (1/1 - 5/31)	C. Period 3 (1/1 - 8/31)
1. Actual income or portion of AGI			
2. Excess itemized deductions	( )	( )	( )
3. Line 1 less line 2 (Tax Table Income)			
4. Exemptions in full (only if Tax Table not used)	( )	( )	( )
5. Line 3 less line 4 (Taxable Income)			
6. TAX			
7. *Credits	( )	( )	( )
8. *Additional taxes			
9. Line 6 less line 7 plus line 8 (TOTAL TAX)			
10. 90% of line 9 (enter totals on reverse side)	code box 37	code box 38	code box 39

*Calculate credits and taxes in the same manner as used for line 1.

EXCEPTION 3 – Annualized income.
Does not apply to fourth quarter.

	A. Period 1 (1/1 - 3/31)	B. Period 2 (1/1 - 5/31)	C. Period 3 (1/1 - 8/31)
1. Total Adjusted Gross Income			
2. Excess itemized deductions.	( )	( )	( )
3. Line 1 less line 2		▨	▨
4. Line 3, Column A x 12 divided by 3	( )	▨	▨
Line 3, Column B x 12 divided by 5	▨	( )	▨
Line 3, Column C x 12 divided by 8	▨	▨	( )
5. Amount from line 4			
6 Exemptions in full (only if Tax Table not unsed)	( )	( )	( )
7. Line 5 less line 6 (annualized taxable income)			
8. TAX			
9. Credits	( )	( )	( )
10. Additional taxes			
11. Line 8 less line 9 plus line 10 (TOTAL TAX).			
12. Enter 20% of line 11, Column A; 40% of line 11, Column B; and 60% of line 11, Column C			

Form **2210**
Department of the Treasury
Internal Revenue Service (0)

Underpayment of Estimated Tax by Individuals

▶ Attach to Form 1040. ▶ See instructions on back.

OMB No. 1545-0140
1981

Name(s) as shown on Form 1040

Social security number

Part I How to Figure Your Underpayment (Complete lines 1 through 17)

If you meet any of the exceptions to the underpayment penalty for ALL four periods, skip lines 1 through 17 and go directly to line 18.

1 1981 tax (from Form 1040, line 54)			1	
2 Earned income credit (from Form 1040, line 57)	2			
3 Tax credit for special fuels and oils (from Form 1040, line 60)	3			
4 Royalty owner's credit (from Form 6249, Part 1, line 3 or Form 6249-A, line 3)	4			
5 Minimum tax (from Form 1040, line 49a)	5			
6 Alternative minimum tax (from Form 1040, line 49b)	6			
7 Social security (FICA) tax on unreported tip income (from Form 1040, line 51a)	7			
8 Uncollected employee FICA and RRTA tax on tips (from Form 1040, line 51b)	8			
9 Tax on an IRA (from Form 5329, Part I or III included on Form 1040, line 52)	9			
10 Total (add lines 2 through 9)			10	
11 Balance (subtract line 10 from line 1)			11	
12 Enter 80% of the amount shown on line 11			12	

		Payment Due Dates			
		(a) Apr. 15, 1981	(b) June 15, 1981	(c) Sept. 15, 1981	(d) Jan. 15, 1982
13 Divide amount on line 12 by the number of payments required for the year (usually four). Enter the result in appropriate columns	13				
14 Estimated tax paid and tax withheld (see instructions)	14				
15 Overpayment (on line 17) from previous period	15	▨			
16 Total (add lines 14 and 15)	16				
17 Underpayment (subtract line 16 from line 13) OR Overpayment (subtract line 13 from line 16)	17				
Part II Exceptions to the Penalty (Farmers and fishermen, see Instruction A for special exception)					
18 Total amount paid and withheld from January 1 through the payment due date shown	18				
19 Exception 1.—1980 tax (see instructions) ▶ $	19	25% of 1980 tax:	50% of 1980 tax:	75% of 1980 tax:	100% of 1980 tax:
20 Exception 2.—Tax on 1980 income using 1981 rates and exemptions (attach computation)	20	Enter 25% of tax:	Enter 50% of tax:	Enter 75% of tax:	Enter 100% of tax:
21 Exception 3.—Tax on annualized 1981 income (attach computation)	21	Enter 20% of tax:	Enter 40% of tax:	Enter 60% of tax:	Exceptions Not Applicable
22 Exception 4.—Tax on 1981 income over 3-, 5-, and 8-month periods (see worksheet on back)	22	Enter 90% of tax:	Enter 90% of tax:	Enter 90% of tax:	
Part III How to Figure the Penalty (Complete lines 23 through 27 if none of the exceptions in Part II apply.)					
23 Amount of underpayment (from line 17)	23				
24 Date you made payment or April 15, 1982, whichever is earlier	24				
25 (a) Number of days after due date of payment to and including date of payment or January 31, 1982 whichever is earlier	25a				
(b) Number of days from and including February 1, 1982 to and including date of payment or April 15, 1982 whichever is earlier	25b				
26 (a) $\frac{\text{Number of days on line 25a}}{365}$ × 12% × amount on line 23	26a				
(b) $\frac{\text{Number of days on line 25b}}{365}$ × 20% × amount on line 23	26b				

27 Penalty (add amounts on lines 26(a) and (b)). Check the box below line 66 on Form 1040 and show this amount in the space provided. If you owe tax, add the penalty amount to the tax due and show the total on line 66. If you are due a refund, subtract the penalty amount from the overpayment you show on line 63 . 27

For Paperwork Reduction Act Notice, see back of form.

Form **2210** (1981)

Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A. Purpose of Form.—Every taxpayer is required to prepay each year's tax by withholding or estimated tax payments. If you are an individual taxpayer, other than a qualified farmer or fisherman, and line 66, Form 1040, is $100 or more, use this form to find out if you paid enough income tax and self-employment tax during the year. If you did not pay enough, you may have to pay a penalty on the amount of your underpayment.

Additional Information.—Please get **Publication 505,** Tax Withholding and Estimated Tax, for more information about the penalty and exceptions to the penalty for underpayment of estimated tax. You can get it at most IRS offices.

Farmers and Fishermen.—If you meet the following tests, you will not have to pay a penalty for underpaying estimated tax:

(1) Your gross income from farming and fishing is at least two-thirds of your annual gross income for 1980 or 1981 and

(2) You filed Form 1040 and paid the tax by March 1, 1982.

If you meet both these tests, do not file this form.

If you meet the test in (1) above, but not test (2), use **Form 2210F,** Underpayment of Estimated Tax by Farmers and Fishermen, to find out if you owe a penalty.

For a definition of gross income: Farmers, see **Publication 225;** Fishermen, see **Publication 595.**

Fiscal Year Taxpayers.—Please contact the IRS for information on how to figure the penalty for underpayment of estimated tax.

B. How To Use This Form.—

(1) Complete Part I to find out if you have an underpayment for any of the four payment periods.

(2) If you have an underpayment on line 17 (column a, b, c, or d), go to Part II, Exceptions to the Penalty.

(3) If you cannot meet any of the exceptions for a payment period, go to Part III, How to Figure the Penalty.

C. How to Figure Your Underpayment.—Complete lines 1 through 17 in Part I. The instructions for most of these lines are on the form itself. Follow the instructions below for lines 14 and 15.

- Line 14.—Any federal income tax withheld or excess FICA/RRTA tax will be considered as evenly paid over the entire year (divide total amount paid by 4 and enter on 14(a), (b), (c), and (d)) unless you can show otherwise.
- Line 15.—Enter any overpayment shown on line 17 minus all earlier underpayments.

If you made more than one payment during any payment period, attach a sheet showing your computations. If you filed your return and paid the balance due by February 1, 1982, you are not required to make a fourth quarter installment (due January 18th).

D. Sole Exceptions to the Penalty.—You will not have to pay a penalty if your 1981 tax payments (Part II, line 18) are equal to or more than any of the four exceptions (lines 19, 20, 21, or 22) for the same payment period (column a, b, c, or d). No other exceptions apply.

Note: All exceptions must be based on timely paid installments.

If you are a calendar year taxpayer required to pay other than on four dates, please contact the IRS for information on how to compute the exceptions in Part II.

The four exceptions to the penalty are explained below. Since taxpayers most often use Exceptions 1 and 4, you may want to consider those exceptions first. Exception 1 is self-explanatory. We have provided a worksheet below for you to use in figuring Exception 4. Generally, if you receive income in a lump-sum, such as a bonus, capital gains, or lottery winnings, you should consider Exception 4 first. If you cannot meet Exception 1 or 4, see the explanations for Exceptions 2 and 3 below. If you believe Exception 2 or 3 applies, please get **Publication 505,** which contains worksheets for you to use in figuring these exceptions. **(Note:** If you did not file a return for 1980, you may not use Exception 1 or 2.)

- *Exception 1, 1980 Tax.*—This exception applies if your 1981 tax payments equal or exceed the tax shown on your 1980 tax return (including self-employment tax but excluding minimum tax or alternative minimum tax). Your 1980 return must cover a 12-month period and **show a tax liability.**
- *Exception 2, Tax on 1980 Income Using 1981 Rates and Exemptions.*—This exception applies if your 1981 withholding and estimated tax payments equal or exceed the tax due on your 1980 income using 1981 rates (including self-employment tax but excluding minimum tax or alternative minimum tax). You must use the personal exemptions allowed for 1981 but use the other facts and law applicable to your 1980 return.
- *Exception 3, Tax on Annualized 1981 Income.*—This exception applies if your 1981 tax payments equal or exceed 80% of the tax (excluding minimum tax or alternative minimum tax) on your annualized income for periods from January 1, 1981 to March 31, May 31, or August 31, 1981.
- *Exception 4, Tax on 1981 Income Over Periods of 3, 5, and 8 Months.*—This exception applies if your 1981 tax payments equal or exceed 90% of the tax (including self-employment tax but excluding minimum tax or alternative minimum tax) on your actual income from Jan. 1, 1981 to March 31, May 31, or Aug. 31, 1981. To figure this exception, complete the worksheet below.

Note: *If you received FICA wages and self-employment income, figure your self-employment tax for each period on no more than $29,700 reduced by your wages for that period.*

Exception 4 Worksheet		1/1/81 to 3/31/81	1/1/81 to 5/31/81	1/1/81 to 8/31/81
1 Enter your taxable income for the period(s) shown	1			
2 Enter tax on amount on line 1 from Tax Table or Tax Rate Schedule	2			
3 Enter self-employment tax from line 6 of the worksheet below	3			
4 Total tax. Add lines 2 and 3	4			
5 Enter the total of the applicable portion for each period of any credit shown on Form 1040, lines 38 through 46, 57, and 60, and the applicable portion for each period of the royalty owner's credit from Form 6249, Part I, line 3, or Form 6249–A, line 3	5			
6 Subtract line 5 from line 4. Enter 90% of this amount on line 22, Part II, of this form . .	6			

Self-employment Tax Worksheet		1/1/81 to 3/31/81	1/1/81 to 5/31/81	1/1/81 to 8/31/81
1 Actual self-employment income for period(s) shown	1			
2 Limit	2	29,700	29,700	29,700
3 Actual wages subject to FICA tax	3			
4 Subtract line 3 from line 2	4			
5 Lesser of line 1 or 4	5			
6 Multiply line 5 by .093	6			

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Form 10

Underpayment of Oregon Estimated Tax

1981

Name

Social Security number

PART I How to figure your underpayment (Fill in lines 1 to 8 below.)

You have an underpayment if you paid less than 80 percent of the tax you owed on each payment due date.

If you have an underpayment for either payment date you must:
- meet an exception for that payment date (See PART II or PART IV) or
- pay interest on your underpayment of estimated tax (See PART III).

1. 1981 Oregon net income tax. Form 40, line 37; or Form 40NR, line 59 .... 1. ______
2. 80% of amount on line 1 above (amount on line 1 multiplied by .80) .... 2. ______

Fill in the amounts below for each date a payment was due.

	Payment due dates	
	April 15, 1981	June 15, 1981
3. If you needed to pay estimated tax on both payment dates, take the amount on line 2 and divide by 4. Fill in the amount in both columns. If you needed to pay estimated tax **only on June 15, 1981**, take the amount on line 2 and divide by 2. Fill in the amount in the **June 15 column**		
4. 1981 estimated tax paid and tax withheld for each payment period		
5. Overpayment from prior period (from line 7 below)	▨	
6. Add lines 4 and 5		
7. Overpayment. If line 3 is less than line 6, subtract line 3 from line 6		
8. Underpayment. If line 3 is more than line 6, subtract line 6 from line 3. If you don't have an underpayment (line 8) for either period, **don't file this form**		

PART II Exceptions to paying interest (Farmers and fishers, see PART IV.)

	April 15, 1981	June 15, 1981
9. Total amount of 1981 estimated tax paid and tax withheld from Jan. 1, 1981, through each payment due date		
10. Exception 1.—1980 tax. Fill in your total 1980 tax ▶ ______	25% of 1980 tax	50% of 1980 tax
11. Exception 2.—Tax on 1980 income using 1981 tax rates and exemptions. (See worksheet on back.)	25% of tax	50% of tax
12. Exception 3.—Tax on annualized 1981 income. (See worksheet on back.)	20% of tax	40% of tax
13. Exception 4.—Tax on 1981 income over 3- and 5-month period. (See worksheet on back.)	90% of tax	90% of tax

PART III Interest on underpayment of estimated tax. If you don't meet an exception for a period, fill in lines 14 through 19 for the same period.

	April 15, 1981	June 15, 1981
14. Amount of underpayment for each period (from line 8)		
15. Date you paid underpayment or April 15, 1982, whichever is earlier		
16. Number of months from due date to payment date shown on line 15. Count part of a month as one month		
17. Multiply 1.5% (.015) by amount on line 16		
18. Interest due for each payment period. Line 14 multiplied by line 17		

19. Total interest due. Add first and second columns of line 18. Fill in this amount on Form 40, line 48; or Form 40NR, line 67 .... ☐

PART IV Exception for farmers and fishers

To meet this exception your gross income from farming or fishing must be equal to or greater than two-thirds (66.7%) of your total gross income for 1980 or 1981.

If you qualify for this exception, check the box .... ▶ ☐

Then, attach this form to your 1981 Oregon income tax return. You don't need to pay interest on underpayment of estimated tax.

150-101-028 (12/81)

Instructions for PART II

There are four exceptions to paying interest on your underpayment. These exceptions are similar to federal exceptions. You won't have to pay interest if your 1981 tax payments (PART II, Line 9) are equal to or more than any one of the exceptions (PART II, Lines 10, 11, 12, or 13) for the same payment period.

Exception 1 (line 10). 1980 tax. The amount on line 9, PART II, must be equal to or more than the net income tax on your 1980 Oregon return (Form 40S, line 13; Form 40, line 33; Form 40NR, line 55). Your 1980 Oregon income tax return must cover 12 months. It must also show an amount due on the net income tax line.

Exception 2 (line 11). Tax on 1980 income using 1981 tax rates and exemptions. The amount on line 9, PART II, must be equal to or more than the tax due on your 1980 income using 1981 tax rates. Refigure your 1980 income using exemptions from your 1981 return. But for other items, such as income and deductions, use the amounts from your 1980 Oregon return. Figure this exception using the worksheet below.

Exception 3 (line 12). Tax on 1981 annualized income. The amount on line 9, PART II, must be equal to or more than 80 percent of the tax on your annualized taxable income for each payment period. To figure your annualized income, use the worksheet below.

Exception 4 (line 13). Tax on 1981 income over 3- and 5-month period. The amount on line 9, PART II, must be equal to or more than 90 percent of your actual tax for the period. To figure your actual tax for each period, use the worksheet below.

Exception 2 worksheet

1. Oregon 1980 taxable income using 1981 exemptions	
2. Oregon tax using 1981 tax rate on amount on line 1	
3. Oregon minimum tax from your 1980 return	
4. Line 2 plus line 3. Tax on 1980 income using 1981 tax rates and exemptions	

Exception 3 worksheet

To figure your annualized income, itemized deductions, additions and subtractions, use the formula below:

First payment: Actual amount (from 1-1-81 to 3-31-81) × 4 = annualized amount

Second payment: Actual amount (from 1-1-81 to 5-31-81) × 2.4 = annualized amount

Exceptions: Figure your federal tax and your standard deduction using the line instructions below.

	Jan. 1, 1981 to March 31, 1981	Jan. 1, 1981 to May 31, 1981
1. Annualized Oregon adjusted gross income		
2. Annualized Oregon additions		
3. Add line 1 and line 2		
4. Annualized Oregon subtractions except federal tax		
5. Federal tax figured on your annualized federal taxable income		
6. Exemptions multiplied by $1,000		
7. Annualized net itemized deductions OR standard deduction using income from line 1		
8. Add lines 4 through 7		
9. Annualized Oregon taxable income. Line 3 minus line 8		
10. Oregon tax on amount on line 9		
11. Oregon minimum tax on annualized tax preference items		
12. Total annualized tax. Line 10 plus line 11		

Exception 4 worksheet

	Jan. 1, 1981 to March 31, 1981	Jan. 1, 1981 to May 31, 1981
1. Actual Oregon adjusted gross income for the period		
2. Actual Oregon additions for the period		
3. Add line 1 and line 2		
4. Actual Oregon subtractions (except federal tax) for the period		
5. Federal tax based on federal taxable income for the period		
6. Number of exemptions multiplied by $1,000		
7. Actual net itemized deductions for the period, OR standard deduction using income from line 1		
8. Add lines 4 through 7		
9. Oregon taxable income for the period. Line 3 minus line 8		
10. Oregon tax on amount on line 9		
11. Any minimum tax on tax preference items for the period		
12. Total Oregon tax for the period. Line 10 plus line 11		

To see if you can take the Earned Income Credit, complete Form 1040 through line 32a, and answer the questions below.

	Yes	No
1. Is the amount you listed on Form 1040, line 32a, less than $10,000?	☐	☐
2. Did you receive any wages, salaries, tips, or other earned income (see "What is Earned Income?" on this page)?	☐	☐
3. Did you have a child (see **Note 1** below) who lived with you in the same principal residence in the U.S. during all of 1981?	☐	☐
4. If you checked Filing Status box 2 or box 5 on Form 1040, did you claim your child as a dependent on Form 1040, line 6c? OR If you checked Filing Status box 4 on Form 1040 and your child was married for 1981, did you claim that child as a dependent on Form 1040, line 6c? OR If you checked Filing Status box 4 on Form 1040 and your child was unmarried for 1981, did you enter that child's name on Form 1040, line 4 (or 6c if you claimed that child as a dependent)?	☐	☐

Note 1—*For this purpose, the word child means:*

- Your son or daughter.
- Your stepchild, adopted child, or a child placed with you by an authorized placement agency for legal adoption (even if the child became your stepchild or adopted child, or was placed with you, during the year).
- Any other child whom you cared for as your own child for the whole year, unless the child's natural or adoptive parents provided more than half of the support for that year.

If you answered NO to any question, you can't take the earned income credit. Do not fill in the worksheet. Instead write "NO" on line 57 of Form 1040.

If you answered YES to all the questions, you may be able to take the credit. Use the Earned Income Credit Worksheet to figure the amount of any credit.

Note 2—If you expect to answer YES to all of the above questions for 1982 and want to receive advance payments of the credit, file Form W–5 with your employer.

Earned Income Credit Worksheet

To figure your credit, follow the instructions below.

1. Enter the amount from Form 1040, line 7, plus any other compensation from your employer, regardless of whether it is taxable. Include disability pensions but do not include other pensions or annuities.	$
2. If you were self-employed, enter the amount, even if a loss, from Schedule SE, line 13. If you have self-employment income that you reported on line 1 above, do not include it here. (Clergy and religious workers, see **Publication 517**)	
3. **Earned income.** Add lines 1 and 2. However, if line 2 is a loss, subtract line 2 from line 1. If the amount on line 3 is $0 or less, do not complete the rest of this worksheet; you cannot take the credit. If it is more than zero, complete 4 and either 5 or 6 below.	
4. **Adjusted gross income.** Enter the amount from Form 1040, line 32a.	
5. If line 4 above is **$6,000 or less,** use the amount from line 3 above to find your credit in the table on page 29. Enter the credit here and on Form 1040, line 57.	
6. If line 4 above is **over $6,000:** a. First find the amount from line 3 above in the table on page 29 and enter the credit for that amount here. $.......................... b. Then find the amount from line 4 in the table and enter the credit for that amount here. $..........................	▨
c. Enter the amount from line 6a or 6b, whichever is smaller, here and on Form 1040, line 57.	$

Do NOT file this worksheet with your return—Keep it for your tax records

Line 57

Earned Income Credit

What Does the Earned Income Credit Do?

The earned income credit helps many taxpayers who have incomes under $10,000. If you can take the earned income credit, you can subtract it from tax you owe or get a refund even if you had no tax withheld from your pay. The credit can go as high as $500.

What Is Earned Income?

In most cases, you had earned income if you worked last year.

Earned income includes:

- wages, salaries, and tips.
- anything else of value (money, goods, or services) you get from your employer for services you performed regardless of whether it is taxable.

Note: *The following are examples of amounts received from your employer that must be included in line 1 of the worksheet—*

a. Housing allowance (or rental value of a parsonage) for members of the clergy.

b. Meals and lodging.

c. Disability pensions which qualify for exclusion on Form 2440.

- earnings from self-employment—this is usually the amount shown on Schedule SE (Form 1040), line 13.

Earned income does not include items such as interest, dividends, social security payments, welfare benefits, veterans' benefits, workmen's compensation or unemployment compensation (insurance).

Who Can't Take the Earned Income Credit?

You can't take the credit if:

- your income is $10,000 or more; or
- you are single (Filing Status Box 1); or
- you are married filing a separate return (Filing Status Box 3); or
- you are entitled to file Form 2555 to exclude income earned overseas or claim excess foreign living expenses; or
- you are entitled to file Form 4563 to exclude income earned from sources in U.S. possessions.

If you can take the credit, enter on line 57 the credit from line 5 or line 6c of this worksheet, whichever applies.

If you want IRS to figure the credit for you, see **IRS Will Figure Your Tax and Some of Your Credits** on pages 3 and 4.

Line 58

Amount Paid with Form 4868 (Extension of Time to File)

If you filed Form 4868 to get an extension of time to file Form 1040, enter the amount you paid with Form 4868.

Line 59

Excess FICA and RRTA Tax Withheld—Two or More Employers

If you had two or more employers in 1981 who together paid you more than

Form **4868**
Department of the Treasury
Internal Revenue Service (0)

Application for Automatic Extension of Time to File U.S. Individual Income Tax Return

OMB No. 1545–0188

1981

Please Print or Type

Your first name and initial (if joint return, also give spouse's name and initial) | Last name | Your social security number

Present home address (Number and street, including apartment number, or rural route) | Spouse's social security no.

City, town or post office, State, and ZIP code

Note: *File this form with the Internal Revenue Service Center where you must file your income tax return and pay the amount shown on line 6 below.* **This is not an extension of time for payment of tax.** *The law requires that a penalty be charged for late payment of tax and late filing unless you show reasonable cause for not paying the tax when due (see Instruction G).*

If you expect to file a 1981 gift tax return (Form 709) due following the close of the fourth calendar quarter of 1981, check this box ☐.

I request an automatic 2-month extension of time until June 15, 1982, in which to file Form 1040 for the calendar year 1981 (or if a fiscal year return until ...., 19......., for the tax year beginning ...., 1981, and ending ...., 19.......).

1 Total income tax liability for 1981 *(You may estimate this amount.)* . . . . **Note:** *You* **must** *enter an amount on line 1. If you do not expect to owe tax, enter zero (0).*		1	
2 Federal income tax withheld	2		
3 1981 estimated tax payments (include 1980 overpayment allowed as a credit) .	3		
4 Other payments (see instruction E)	4		
5 Total (add lines 2, 3, and 4)		5	
6 Income tax balance due (subtract line 5 from line 1). Pay in full with this form . . . . ▶		6	
7 Total gift tax you expect to owe for 1981 (see instruction E). **Note:** *This is the amount you expect to owe for the gift tax return due following the close of the fourth calendar quarter of 1981 (see instruction for line 7)* . . . . ▶		7	

If you send only one check for both income and gift tax due, attach a statement showing how much of the check applies to each type of tax.

Signature and Verification

If Prepared by Taxpayer.—Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Your signature .... Date ....

Spouse's signature (if filing jointly, BOTH must sign even if only one had income) .... Date ....

If Prepared by Someone Other Than Taxpayer.—Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; that I am authorized to prepare this form; and that I am:

☐ A member in good standing of the bar of the highest court of (specify jurisdiction) ....
☐ A certified public accountant qualified to practice in (specify jurisdiction) ....
☐ A person enrolled to practice before the Internal Revenue Service.
☐ An authorized agent holding a power of attorney. (You need not send in the power of attorney unless requested.)
☐ A person in close personal or business relationship to the taxpayer who cannot sign this form because of illness, absence, or other good cause. My relationship to the taxpayer and the reasons why the taxpayer cannot sign this form are ....

....

Signature of preparer other than taxpayer .... Date ....

For Paperwork Reduction Act Notice, see back of form.

Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A. Purpose of Form 4868.—Use this form to ask for an automatic 2-month extension of time to file Form 1040. Do not request an automatic extension if any of the following apply:

- You want the IRS to figure your tax.
- You are under a court order to file your return by the regular due date.
- You will receive an extension of time to file while outside the United States and Puerto Rico on April 15, 1982.

The extension will be granted if you complete this form properly, file it on time, and **pay with it the amount of tax shown on line 6.** We will notify you **only** if your request for an extension is denied.

Any extension of time granted you for filing your 1981 calendar year income tax return will also extend the time for filing a 1981 gift tax return due by April 15, 1982, following the close of the fourth calendar quarter of 1981.

B. When to File.—File Form 4868 by April 15, 1982. If you are filing a fiscal year return, file Form 4868 by the regular due date of Form 1040. If the due date falls on a Saturday, Sunday, or legal holiday, file by the next regular workday.

You may file Form 1040 any time before the 2-month period ends.

C. Filing Form 2688.—Except in cases of undue hardship, we will not accept Form 2688, Application for Extension of Time to File U.S. Individual Income Tax Return, until you have first used Form 4868.

If you have filed Form 4868 and still need more time, use Form 2688 or write a letter of explanation. You must show reasonable cause. Send Form 2688 or the letter to the Internal Revenue Service Center where you file your Form 1040. (See Where To File, below.)

If you need a further extension, ask for it early so that, if denied, you can still file your return on time.

D. Where to File

Mail this form to the **Internal Revenue Service Center** for the place where you live.

New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY	00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA	05501
Delaware, Maryland, District of Columbia, Pennsylvania	Philadelphia, PA	19255
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA	31101
Michigan, Ohio	Cincinnati, OH	45999
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX	73301
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT	84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO	64999
California, Hawaii	Fresno, CA	93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	Memphis, TN	37501

If you are located in: ▼	Use this address: ▼
American Samoa	Philadelphia, PA 19255
Guam	Commissioner of Revenue and Taxation Agana, GU 96910
Puerto Rico (or if excluding income under section 933) Virgin Islands: Non-permanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	Department of Finance, Tax Division Charlotte Amalie, St. Thomas, VI 00801
A.P.O. or F.P.O. address of:	Miami—Atlanta, GA 31101 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201
Foreign country: U.S. citizens and those excluding income under section 911 or 931, or claiming deductions under section 913	Philadelphia, PA 19255

E. How to Fill Out This Form.—At the top, fill in the spaces for your name, address, social security number, and spouse's social security number if you are filing a joint return. If you expect to file a 1981 gift tax return (Form 709) due following the close of the fourth calendar quarter of 1981, check the box on the front of this form. Below that, if you are on a fiscal year, fill in the date on which your 2-month extension will end and the dates your tax year begins and ends.

We have provided specific instructions for most of the lines on the form. Those lines that do not appear in the instructions are self-explanatory.

Line 1.—Enter on line 1 the amount of income tax you expect to owe for 1981 (the amount you expect to enter on Form 1040, line 54, when you file your return). Be sure to estimate the amount correctly. If you underestimate this amount, you may be charged a penalty as explained under Penalties below.

Line 4.—Enter other payments and credits that you expect to show on Form 1040.

Line 6.—An extension of time to file your income tax return will not extend the time to pay your income tax. Therefore, you must pay the amount of income tax shown on line 6 in full with this form.

Line 7.—If you checked the gift tax box on the front of this form, enter the amount of gift tax you expect to owe for 1981. To avoid the failure to pay penalty, you must pay this amount in full with Form 4868 unless you specifically request an extension for paying the gift tax. To request an extension for paying the gift tax only, you must attach a statement to this form that paying the gift tax on the due date would cause you undue hardship (not merely inconvenience).

If your spouse is filing a separate Form 4868, enter on your form only the total gift tax you expect to owe.

If you are filing Form 4868 with your spouse, enter on line 7 the total gift tax the two of you expect to owe. However, if each of you expects to file a gift tax return, also show in the space to the right of line 7 how much gift tax each expects to owe for 1981.

Below line 7, sign and date the form. If someone other than the taxpayer prepares the form, that person must check one of the boxes showing that he or she is authorized to do so, and then sign and date the form.

F. How to Claim Credit for Payment Made With This Form.—Show the amount paid (line 6) with this form on Form 1040, line 58.

If you and your spouse file a joint Form 4868 for 1981 but do not file a joint income tax return for the year, you may claim the total automatic extension tax payment on your separate return or on your spouse's separate return or you may divide it in any agreed amounts. Be sure to enter the social security numbers of both spouses on the separate Form 1040 returns.

If you and your spouse file separate Forms 4868 for 1981 and you file a joint income tax return for the year, enter on Form 1040, line 58, the sum of the amounts paid on the separate Forms 4868. Also enter the social security numbers of both spouses in the spaces on Form 1040.

G. Penalties.—You may be assessed one or both of the following penalties.

Late Payment of Tax.—Form 4868 does not extend the time for payment of income or gift tax.

We may charge you a penalty for the late payment of tax (other than estimated tax) of ½ of 1% each month or part of a month, unless you can show reasonable cause for not paying the tax on time. The maximum penalty is 25% of the unpaid amount.

You are considered to have reasonable cause for the period covered by the automatic extension for income tax if the balance due on Form 1040, line 66,

(1) is not more than 10% of the amount shown as total tax on Form 1040, line 54, and

(2) is paid with Form 1040.

When you file Form 1040, if both of the above conditions are not met, the penalty for failure to pay will apply to the balance due from the regular due date of Form 1040 to the date of payment, unless you show reasonable cause.

If you have reasonable cause, attach a statement to Form 1040 giving your reason.

If you cannot show reasonable cause, figure the penalty on the total income tax due on Form 1040, line 66, from the regular due date of Form 1040 to the date of payment.

Late Filing of Return.—We may charge you a penalty of 5% of the tax due for each month or part of a month that the return is late, but not more than 25%. If you file a return late, attach a full explanation with the return.

H. Interest.—Interest is charged from the regular due date of the return until the tax is paid. Interest is charged even though you:

(1) have an extension granted, OR

(2) show reasonable cause for not paying the tax.

I. When You File Your Form 1040.—If you owe any interest or penalties when you file your Form 1040, see Reminders on page 16 in Instructions for Preparing Form 1040 for how to report these items.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1981—O-343-182

Form **2688**

Department of the Treasury
Internal Revenue Service

Application for Extension of Time to File

U.S. Individual Income Tax Return

(See back for filing instructions. Be sure to answer all questions.)

OMB No. 1545-0066

1981

Please Print or Type	Your first name and initial (if joint return, also give spouse's name and initial) — Last name	Your social security number
	Present home address (Number and street, including apartment number, or rural route)	Spouse's social security number
	City, town or post office, State, and ZIP code	

If you expect to file a 1981 gift tax return (Form 709) due following the close of the fourth calendar quarter of 1981, check this box ☐

1 I request an extension of time until ...., 19......, to file my individual income tax return (Form 1040) for the tax year beginning ...., 19......, and ending ...., 19......

2 Were you previously granted an extension of time to file for this tax year? . . . ☐ Yes ☐ No

3 Previous extension granted to (date) . . . .

4 State in detail why you need an extension. ....

5 Income tax balance due (see instruction 7)	5	
6 Amount paid with Form 4868	6	
7 Balance due with Form 2688 (subtract line 6 from line 5). Pay in full with this form	7	
8 Total gift tax you expect to owe for the 4th quarter of 1981	8	

Signature and Verification

If Prepared by Taxpayer.—Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Taxpayer's signature ▶............ Date ▶............

Spouse's signature ▶............ Date ▶............

If Prepared by Someone Other Than Taxpayer.—Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; that I am authorized to prepare this form; and that I am:

☐ A member in good standing of the bar of the highest court of (specify jurisdiction)............

☐ A certified public accountant qualified to practice in (specify jurisdiction)............

☐ A person enrolled to practice before the Internal Revenue Service.

☐ An authorized agent holding a power of attorney. (You need not send in the power of attorney unless requested.)

☐ A person with a close personal or business relationship to the taxpayer who cannot sign this form because of illness, absence, or other good cause. My relationship to the taxpayer and the reasons why the taxpayer cannot sign this form are ....

Signature of preparer other than taxpayer ▶ Date ▶

IRS will show below whether or not the application is approved and will return the copy.

Notice to Applicant—To Be Completed by IRS

☐ We HAVE approved the application. (Please attach this form to your return.)

☐ We HAVE NOT approved the application. (Please attach this form to your return.)

However, because of your reasons stated above, we have granted a 10-day grace period from the date shown below or due date of the return, whichever is later. This grace period is considered to be a valid extension of time for elections otherwise required to be made on returns filed on time.

☐ We HAVE NOT approved the application. After considering the reasons stated above, we cannot grant your request for an extension of time to file. (We are not granting the 10-day grace period.)

☐ We cannot consider the application because it was filed after the due date of the return.

☐ Other ....

.... Director

By: ....

.... Date

File two copies by the due date for filing the return. (See instructions on back.) Form **2688** (1981)

For Paperwork Reduction Act Notice, see back of form.

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If the copy of this form is to be returned to the taxpayer at an address other than that shown on page 1, or to an agent acting for the taxpayer, please complete the section below:

Please Print or Type	Name
	Number and street
	City, town or post office, State, and ZIP code

NOTE:

A. You cannot choose to have IRS figure your income tax if the return is filed after the regular due date.

B. This is not an extension of time for payment of tax. You may be charged a penalty for late payment of tax unless you show reasonable cause for not paying the tax when due.

C. Interest will be charged on any unpaid tax from the regular due date of the return until the tax is paid.

Instructions

PAPERWORK REDUCTION ACT NOTICE.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Note: Do not file this form unless you have first used **Form 4868**, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, to get an automatic 2-month extension, except in cases of undue hardship.

1. Purpose of Form 2688.—IRS will grant a reasonable additional extension of time for filing a return. You must file an application on time and show reasonable cause why you cannot file the return within the time allowed by the previous extension. Generally, we will consider the application based on your efforts to fulfill the filing requirements, rather than on the convenience of your tax return preparer. But if your tax return preparer is not able to complete the return by the due date for reasons beyond his or her control, or if in spite of reasonable efforts you are not able to get professional help in time to file, we will generally grant the additional extension.

On line 4 clearly describe the reasons that will cause your delay in filing the return. We cannot accept incomplete reasons, such as "illness" or "practitioner too busy," without adequate explanations. If it is clear that an application was made for no important reason but only to gain time, we will deny both the application and the 10-day grace period.

If you use this form to request, because of undue hardship, an extension of time beyond the return's regular due date, clearly explain on line 4 and attach all supporting information to the form.

Any extension of time granted you for filing your 1981 calendar year income tax return also extends the time for filing a 1981 gift tax return due by April 15, 1982. If you expect to file a gift tax return (Form 709) referred to above, check the box on the front of Form 2688.

2. Period of Extension.—Generally, we will not grant more than a 60-day extension of time on the first application. We will not grant you a longer period of time unless you clearly show sufficient need for the extended period. We cannot grant an extension of more than 6 months if you live in the United States. The 6-month extension period granted includes the 2 months granted if Form 4868 was previously filed.

3. Blanket Requests.—We will not grant blanket requests for extensions. You must file a separate extension form for each return (except for Form 1040 and Form 709 as explained above).

4. When to File.—To apply for an extension of time to file Form 1040, file an application by the due date of the return, or extended due date if Form 4868 was previously filed. Do so early enough so that we will have time to act on the application before the return's regular or extended due date.

5. Penalties and Interest.—An extension of time to file a return, unless it states otherwise, does not extend the time for paying the tax. We may charge you a penalty for the late payment of tax (other than estimated tax) of ½ of 1% each month or part of a month unless you can show reasonable cause for not paying on time.

Interest will be charged from the regular due date of the return until the tax is paid. Interest is charged even though you:

(1) have an extension granted, OR

(2) show reasonable cause for not paying the tax.

6. How and Where to File.—Complete and file two copies of this form with the Internal Revenue Service Center where you are required to file your return.

U.S. citizens abroad who have no legal residence or place of business in the United States should file with the Internal Revenue Service Center, Philadelphia, PA 19255. U.S. citizens residing or traveling outside of the United States on the due date of the return (for a calendar year the due date is April 15) are automatically allowed a 2-month extension. If you are a U.S. citizen living abroad who expects to qualify for special tax treatment, apply on Form 2350 for an extension of time to file your tax return. See **Publication 54,** Tax Guide for U.S. Citizens Abroad, for more information.

7. How to Fill Out This Form.—At the top, fill in the spaces for your name, address, social security number, and spouse's social security number if you are filing a joint return. If you expect to file a gift tax return (Form 709) for the fourth calendar quarter of 1981, check the box on the front of this form.

You must complete lines 1 through 8.

Line 5.—The income tax balance due is the total income tax you expect to owe for 1981 minus Federal income tax withheld, 1981 estimated tax payments, and other payments and credits you expect to show on Form 1040.

Line 6.—Enter the amount paid with Form 4868.

Line 7.—Enter the difference between the income tax balance due (line 5) and the amount paid with Form 4868 (line 6) and pay this amount in full with this form.

Line 8.—Enter the total gift tax you expect to owe when you file your gift tax return.

If your spouse is filing a separate Form 2688, enter on your form only the total gift tax you expect to owe.

If you are filing Form 2688 with your spouse, enter on line 8 the total gift tax the two of you expect to owe. However, if each of you expects to file a gift tax return, also show in the space to the right of line 8 how much gift tax each expects to owe for 1981.

If you send only one check for both income and gift tax balance due, attach a statement showing how much of the check applies to each type of tax.

Below line 8, sign and date the form. If someone other than the taxpayer prepares the form, that person must check one of the boxes showing that he or she is authorized to do so, and then sign and date the form.

8. How to Claim Credit for Payment Made with This Form.—If you make payment with Form 2688, include on Form 1040, line 58 the amount of income tax paid.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1981—O-343-225   E. I. NO. 73-0867115

Department of the Treasury
Internal Revenue Service

Instructions for Form 1040X

(Revised November 1979)

Amended U.S. Individual Income Tax Return

Purpose of Form 1040X

Use Form 1040X to correct your income tax return, Form 1040A or Form 1040. Also use Form 1040X to claim a refund of individual income taxes. If you are changing your Federal return, you may also have to change your State return. Please note that it often takes 2 to 3 months to process Form 1040X.

The interest rate on refunds or on additional tax due has been increased from 6% to 12%, effective February 1, 1980. We will figure the interest and will either include it in your refund or bill you for it.

Information on Income, Deductions, etc.

If you have questions, such as what income is taxable or what expenses are deductible, the instructions for the return you are amending may help you. Be sure to use the tax table(s) or tax rate schedules for the right year to figure the corrected tax. The related schedules and forms may help you also. If you need more information, contact any Internal Revenue Service office.

When to File

File Form 1040X after your original return. Generally, Form 1040X must be filed within three years after the date the original return was due or 3 years after the date you filed it, whichever was later. A Form 1040X based on a net operating loss carryback, investment credit carryback, WIN credit carryback, or jobs credit carryback generally must be filed within 3 years after the due date of the return for the tax year of the net operating loss or unused credit.

Preparer Information

If you fill in your own return, the space under your signature should remain blank.

If someone prepares your return and does not charge you, that person should not sign your return. Certain others who prepare your return should not sign. For example, your regular, full-time employee or your partner in business does not have to sign. (This list is not all inclusive.)

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Information area of your return.

When more than one person prepares your return, the preparer with primary responsibility for the overall accuracy of your return must sign as the preparer.

If the preparer is self-employed (i.e., is not employed by any person or business entity to prepare the return), he or she should check the "self-employed" box. Partners who prepare income tax returns as members of a partnership are considered to be employees for purposes of the income tax return preparer rules only, and should not check the self-employed box in the preparer's section of Form 1040X. The partners are still considered self-employed for self-employment tax purposes.

If you have questions about whether a preparer is required to sign your return, please contact an IRS office.

The person required to sign your return MUST complete the required preparer information and:

- *Sign it, by hand, in the space provided for the preparer's signature (Signature stamps or labels are not acceptable).*
- *Give you a copy of your return in addition to the copy filed with IRS.*

Tax return preparers should be familiar with their responsibilities. Publication 1045, Information for Preparers of Federal Income Tax Returns, lists some of the preparer's other responsibilities and penalties for which he or she may be liable. The publication also contains the regulation citations which govern their work.

Net Operating Loss

A refund, based on a net operating loss, should not include the refund of any self-employment tax reported on line 11. For more information, contact any Internal Revenue Service office.

Line-By-Line Instructions

Page 1

ABOVE YOUR NAME, ENTER THE CALENDAR YEAR OR FISCAL YEAR OF THE RETURN YOU ARE AMENDING.

Column A.—Enter the amounts from your return as originally filed or as you later amended it. If your return was examined, enter the amounts that were determined as the result of the examination.

Column B.—Enter the increases or decreases you are making. Bracket all decreases. Explain each change on page 2, Part II and attach any related schedule. For example, if you are amending your return in order to average your income, attach Schedule G (Form 1040) to Form 1040X.

Column C.—Add the increase in column B to the amount in column A or subtract the column B decrease from column A. Report the result in column C. For any item you do not change, enter the amount from column A in column C.

If Your Amended Return Changes Only Credits Or Other Taxes, Skip Lines 1–7 And Start With Line 8. If It Changes Only Payments, Skip Lines 1–11 And Start With Line 12.

Line 1—Total Income.—On page 2, Part II, explain any changes you make on this line. To figure this amount, add income from all sources, such as wages, interest, dividends, and net profit from business. This total was reportable on Form 1040, line 13 or Form 1040A, line 12 for 1976. For 1977 and 1978 use the total reportable on line 21 of your Form 1040 or line 10 of your Form 1040A. For 1979, use line 22 of Form 1040 and line 11 of Form 1040A.

If you are correcting wages or other employee compensation, attach copy B of any additional or corrected Forms W–2 that you got after you filed your original return.

Line 2—Adjustments to Income.—Enter on this line all adjustments to income such as disability income exclusion, moving expense, employee business expenses, etc. These items were reportable in Part II and line 15(b), Form 1040 for 1976. For the years 1977 and 1978 use the amounts reportable on lines 22–27 and 30 of Form 1040. For 1979, use lines 23–29 of Form 1040.

Line 4—Deductions.—

For 1976: Report on this line your total itemized deductions or your standard deduction, whether or not you are using the tax tables. For the correct standard deduction, see the 1976 Form 1040 or Form 1040A.

For 1977, 1978, and 1979: Make entry on this line only for the excess, if any, of your total itemized deductions over:

- $3,200 ($3,400 for 1979), if you are married filing joint return or qualifying widow(er) with dependent child.
- $2,200 ($2,300 for 1979), if you are single or head of household.
- $1,600 ($1,700 for 1979), if you are married filing separate return.

If you do not itemize, enter zero.

If you made an entry on Schedule TC, Form 1040, Part II, line 4, for 1977, 1978, or 1979, enter that amount on line 4, Form 1040X. Add lines 3 and 4 instead of subtracting, and enter the result on line 5.

Line 8—Tax.—Enter your income tax before subtracting any credits. Indicate on this line the method you use in column C to figure your tax. For example, if you used the tax rate schedules, write "TRS." If you use income averaging, write "Sch. G."

Figure the tax on the income you reported in column C. Attach the appropriate schedules. Include on line 8 any additional taxes from Form 4970, Form 4972, Form 5544, and Form 5405. Also include any section 72(m)(5) penalty tax. The forms and instructions for the right year will help you with line 8.

Line 9—Credits.—Enter your total credits. Examples are credit for the elderly, credit for child care expenses, or investment credit as reportable in Part IV of Form 1040 for 1976. For 1977, 1978, or 1979 use the credits reportable on lines 38 through 45 of Form 1040. Also report on this line your general tax credit for any year before 1979, but first see the note under line 5 of Form 1040X.

If you filed Form 1040A, enter on line 9 your credit for contributions to candidates for public office. For 1976 only, enter your general tax credit also.

Line 11—Other Taxes.—Include other taxes, such as tax from recomputing prior-year investment credit, minimum tax, self-employment tax, etc. These taxes were reportable in Part V of your Form 1040 for 1976. On Form 1040 for 1977, 1978, and 1979, they were on lines 48 through 53. If you filed Form 1040A in 1979, use the amount from line 14b.

Lines 13–17.—Enter on the applicable lines your payments and credits. They were reportable on lines 23(a) through 23(d) and in Part VI for 1976. For 1977, 1978, and 1979 they were on lines 55 through 61.

On Form 1040A they were on lines 20 (a)–20(d) for 1976, and 11(b)–11(c) for 1977 and 1978. For 1979, use lines 12b and 12c.

Line 13—Federal Income Tax Withheld, Excess FICA and RRTA Tax Withheld.—If you change these amounts, attach copy B of any additional or corrected Forms W–2 that you got since you filed your original return.

Line 14.—Enter the estimated tax payments you claimed on your return. If you filed Form 1040C, include the amount you paid as the balance due with the return.

Line 18.—Enter the amount you paid on the "Balance Due" reported on your original return. Also include any more tax that may have resulted if your original return was examined. Do not include payments of interest or penalties.

Line 20—Overpayment Shown on Original Return.—Enter the overpayment from your original return. On the 1977, 1978, and 1979 Form 1040A, this is called the amount to be refunded. On Form 1040 it is called the amount overpaid. That amount must be considered in preparing Form 1040X since any refund you have not yet received from your original return will be refunded separately from any additional refund claimed on your Form 1040X. Also include in the amount on line 20 any additional overpayment of tax that may have resulted from an examination of your original return. Do not include any interest you received on any refund.

Lines 21 and 22—Caution: *If line 21 results in a minus figure, add it to line 12, instead of subtracting. Enter the result on line 22.*

Line 23—Refund.—If you are entitled to a refund larger than you claimed on your original return, show only the additional amount due you. This will be refunded separately from the amount claimed on your original return. See instruction for line 20.

Page 2

Part I—Exemptions.—Complete applicable lines 1 through 5 in all cases. Complete lines 6 and 7 only if you claim more exemptions.

In column A enter the exemptions claimed on your original return Forms 1040 or 1040A. In column B enter any increase or decrease to exemptions claimed on your original return. Enter in column C the corrected number of exemptions you are claiming on this amended return.

Part III—Presidential Election Campaign Fund.—You may use Form 1040X to have $1 go to the Presidential Election Campaign Fund if you (or your spouse on a joint return) did not do so on your original return. This must be done within 20½ months after the original due date for filing the return. For the calendar year 1979, this period expires on December 31, 1981.

Note: *A "Yes" designation cannot be changed.*

Where to File

Please use the address for your State. Mail your return to the Internal Revenue Service Center for the place where you live. No street address is needed.

Alabama—Atlanta, GA 31101
Alaska—Ogden, UT 84201
Arizona—Ogden, UT 84201
Arkansas—Austin, TX 73301
California—Fresno, CA 93888
Colorado—Ogden, UT 84201
Connecticut—Andover, MA 05501
Delaware—Philadelphia, PA 19255
District of Columbia—Philadelphia, PA 19255
Florida—Atlanta, GA 31101
Georgia—Atlanta, GA 31101
Hawaii—Fresno, CA 93888
Idaho—Ogden, UT 84201
Illinois—Kansas City, MO 64999
Indiana—Memphis, TN 37501
Iowa—Kansas City, MO 64999
Kansas—Austin, TX 73301
Kentucky—Memphis, TN 37501
Louisiana—Austin, TX 73301
Maine—Andover, MA 05501
Maryland—Philadelphia, PA 19255
Massachusetts—Andover, MA 05501
Michigan—Cincinnati, OH 45999
Minnesota—Ogden, UT 84201
Mississippi—Atlanta, GA 31101
Missouri—Kansas City, MO 64999
Montana—Ogden, UT 84201
Nebraska—Ogden, UT 84201
Nevada—Ogden, UT 84201
New Hampshire—Andover, MA 05501
New Jersey—Holtsville, NY 00501
New Mexico—Austin, TX 73301

New York
New York City and Counties of Nassau, Rockland, Suffolk and Westchester—Holtsville, NY 00501
All Other Counties—Andover, MA 05501

North Carolina—Memphis, TN 37501
North Dakota—Ogden, UT 84201
Ohio—Cincinnati, OH 45999
Oklahoma—Austin, TX 73301
Oregon—Ogden, UT 84201
Pennsylvania—Philadelphia, PA 19255
Rhode Island—Andover, MA 05501
South Carolina—Atlanta, GA 31101
South Dakota—Ogden, UT 84201
Tennessee—Memphis, TN 37501
Texas—Austin, TX 73301
Utah—Ogden, UT 84201
Vermont—Andover, MA 05501
Virginia—Memphis, TN 37501
Washington—Ogden, UT 84201
West Virginia—Memphis, TN 37501
Wisconsin—Kansas City, MO 64999
Wyoming—Ogden, UT 84201

Panama Canal Zone, American Samoa—Philadelphia, PA 19255
Guam—Commissioner of Revenue [illegible] Taxation, Agana, GU 96910
Puerto Rico *(or if excluding income under Section 933)*—Philadelphia, PA 19255
Virgin Islands: Non-permanent residents—Philadelphia, PA 19255
Virgin Islands: Permanent residents—Department of Finance, Tax Division, Charlotte Amalie, St. Thomas, VI 00801
Foreign country *and have an* **A.P.O.** *or* **F.P.O.** *address of:*
Miami—Atlanta, GA 31101
New York—Holtsville, NY 00501
San Francisco—Fresno, CA 93888
Seattle—Ogden, UT 84201
Foreign country: *U.S. citizens and those excluding income under section 911 or 931, or claiming deductions under section 913—Philadelphia, PA 19255*

☆ U.S. GOVERNMENT PRINTING OFFICE : 1979—O-288-080 23-0916750

Form 1040X (Rev. November 1979) Amended U.S. Individual Income Tax Return

Department of the Treasury
Internal Revenue Service

This return is for calendar year ▶ 19 , OR fiscal year ended ▶ , 19 .

Please print or type

Your first name and initial (If joint return, also give spouse's name and initial)	Last name	Your social security number
Present home address (Number and street, including apartment number, or rural route)		Spouse's social security no.
City, town or post office, State, and ZIP code		

Enter below name and address as shown on original return (if same as above, write "Same"). If changing from separate to joint return, enter names and addresses used on original returns. (**Note:** *You cannot change from joint to separate returns after the due date has passed.)*

a. Service center where original return was filed

b. Has original return for the year being changed ever been examined? . ☐ Yes ☐ No
If "No," have you been advised that it will be? . . . . ☐ Yes ☐ No
If "Yes," identify IRS office ▶

c. Filing status claimed. (**Note:** *You cannot change from joint to separate returns after the due date has passed.)*
On original return . ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of Household ☐ Qualifying Widow(er)
On this return . . ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of Household ☐ Qualifying Widow(er)

Income and Deductions	A. As originally reported or as adjusted (See Instructions)	B. Net change—Increase or (Decrease)—explain on page 2	C. Correct amount
1 Total income (see instructions)			
2 Adjustments to income (see instructions)			
3 Adjusted gross income (subtract line 2 from line 1)			
4 Deductions (see instructions)			
5 Subtract line 4 from line 3 . . . . **Note:** *If this return is for 1977 or later, and you use the tax tables, do not complete line 6 or take the general tax credit. Instead, enter on line 8, the tax on the income you reported on line 5.*			
6 Exemptions from page 2, line 5			
7 Taxable income (subtract line 6 from line 5)			
Tax Liability			
8 Tax (see instructions) (method used in column C ....) . .			
9 Credits (such as residential energy credits, credit for the elderly—see instructions) .			
10 Subtract line 9 from line 8			
11 Other taxes (such as self-employment tax, minimum tax—see instructions) . . .			
12 Total tax liability (add line 10 and line 11)			
Payments			
13 Federal income tax withheld and excess FICA and RRTA tax withheld . .			
14 Estimated tax payments			
15 Earned income credit			
16 Credits for Federal tax on special fuels, regulated investment company, etc.			
17 Amount paid with Form 4868 (application for automatic extension of time to file)			
18 Amount paid with original return, plus additional tax paid after it was filed			
19 Total of lines 13 through 18, column C			
Refund or Balance Due			
20 Overpayment, if any, as shown on original return			
21 Subtract line 20 from line 19 (see instructions)			
22 **BALANCE DUE.** If line 12, column C is more than line 21, enter difference. Please pay in full with this return			
23 **REFUND** to be received. If line 12, column C is less than line 21, enter difference			

Please Sign Here

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

▶ Your signature Date

▶ Spouse's signature (if filing jointly BOTH must sign even if only one had income)

Paid Preparer's Information

Preparer's signature and date ▶

Check if self-employed ▶ ☐

Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶

E.I. No. ▶

ZIP code ▶

BE SURE TO COMPLETE PAGE 2

Form **1040X** (Rev. 11-79)

Part I Exemptions (See Form 1040 or Form 1040A Instructions)

If exemptions are unchanged or are decreased, do not complete lines 6 and 7.

	A. Number as originally reported	B. Net change	C. Correct number
1 Exemptions—yourself and spouse, 65 or over, blind			
2 Your dependent children who lived with you			
3 Other dependents			
4 Total exemptions (add lines 1 through 3)			
5 Multiply $1,000 ($750, if 1978 or prior) by the total number of exemptions claimed on line 4. Enter this amount here and on page 1, line 6			

6 Enter first names of your dependent children who lived with you, but were not claimed on original return:

Enter number ▶ ☐

7 Other dependents not claimed on original return:

(a) Name	(b) Relationship	(c) Number of months lived in your home	(d) Did dependent have income of $1,000 ($750, if 1978 or prior) or more?	(e) Did you provide more than one-half of dependent's support?

Enter number ▶ ☐

Part II Explanation of Changes to Income, Deductions, and Credits

Enter the line reference from page 1 for which you are reporting a change and give the reason for each change. Attach applicable schedules.

Check here ▶ ☐ if change pertains to a net operating loss carryback, an investment credit carryback, a WIN credit carryback, or a jobs credit carryback.

Part III Presidential Election Campaign Fund

Checking below will not increase your tax or reduce your refund.

Check here ▶ ☐ if you did not previously want to have $1 go to the fund but now want it to do so.

Check here ▶ ☐ if joint return and if spouse did not previously want to have $1 go to the fund but now wants it to do so.

☆ U.S. GOVERNMENT PRINTING OFFICE : 1979—O—283-079 E.I. 36-2374549

INSTRUCTIONS FOR FILING FORM 40-X (Rev. 12-79)

AMENDED OREGON INDIVIDUAL INCOME TAX RETURN

Use of Form 40-X. Use Form 40-X only for changes or corrections necessary to amend the filing of an Oregon Individual Income Tax return, or an Oregon Homeowner and Renter Property Tax Refund claim. Do **not** use Form 40-X for original return filing. Also, Form 40-X cannot be used to file amended returns for part-year or nonresident taxpayers.

Refer to original filing instructions for the year you are amending. If necessary, attach an appropriate schedule or form to your amended return to explain revised items of income, deductions, or credits. If you need additional information or assistance, contact your local Oregon Department of Revenue office.

How to Fill Out Form 40-X. On lines 1 thru 12 and 25 thru 31 there are three columns, A, B, and C. Column A is provided to show amounts entered on your original return, or as later corrected or adjusted upon examination of your original return. Column B is provided to show net changes to the amount of any individual item reported in Column A. Such change must be explained in detail on page 2. Column C should reflect the correct amount of the item following change.

STATUTE OF LIMITATIONS

A claim for refund may normally be filed within 3 years from the time your original return was filed.

The common exceptions are:

1. If you paid tax within the past 2 years for the tax year you are amending, you may claim a refund. The maximum refund is limited to the amount of tax paid within the prior 2-year period.
2. You may claim a refund within 7 years from the due date of the original return if the claim relates to worthlessness of stock or the right to receive stock, or a worthless debt.
3. In the case of a net operating loss carryback, you may file for a refund within 3 years after the due date of the return for the tax year in which you had the net operating loss.
4. If the IRS conducted an audit and changes were made, you may file a copy of the audit report to claim a refund within 1 year of the finalization of the federal audit.

If additional tax is due, your amended return should normally be filed within 3 years from the date the return was filed. However, if your Oregon taxable income increases as the result of a federal audit, you must file a copy of the audit report within 90 days after the report becomes final.

CHANGES TO A 1977 RETURN

If you used page 1 and page 2 of Form 40, follow instructions below for CHANGES TO A RETURN FILED ON FORM 40. If you used only page 1 of Form 40, complete lines: 1 — Federal adjusted gross income from line 8, Form 40; 6 — Federal income tax from line 9, Form 40 (see instructions for FEDERAL INCOME TAX below). Subtract line 6 from line 1 and enter the balance on line 7. Use this amount to determine your Oregon tax by referring to the tax tables provided with the 1977 instructions.

CHANGES TO A RETURN FILED ON FORM 40S

Tax Years 1978-1979 — Complete lines: 1 — Total income from line 4, Form 40S; 4 — Standard deduction from line 6, Form 40S; 5 — Exemptions from line 7, Form 40S; and 6 — Federal income tax from line 5, Form 40S (see instructions below for FEDERAL INCOME TAX). Subtract the completed lines from line 1 and enter the balance on line 7. Use this amount to determine your Oregon tax by referring to the tax tables provided with the instructions for the year you are amending.

If you are switching from Form 40S to Form 40, enter the words "Form 40S" at line 7, Column A. Complete Columns B and C according to Form 40 instructions.

CHANGES TO A RETURN FILED ON FORM 40

Line 1, **Income.** This is a summary of all income before modifications. Add income from all sources; such as wages, interest, dividends, net profit from business, etc., then subtract adjustments allowed in the determination of federal adjusted gross income; such as sick pay, moving expense, employee business expense, payments by self-employed persons to retirement plans, etc. If you are correcting wages or other employee compensation, attach the state copy of any additional or corrected W-2 forms to support such change.

Line 2, **Additions.** Enter the amount which is required by Oregon law to be added to federal income.

Line 3, **Subtractions.** Enter the amount which is required by Oregon law to be subtracted from federal income. For limitations on federal income tax subtractions, see FEDERAL INCOME TAX below.

Line 4, **Deductions.** Use this line to report standard or itemized deductions as elected on the federal income tax return (for 1978 or 1979 see note below). If you used itemized deductions and you are amending them, enter the amount of change in Column B and explain the details of change in the EXPLANATION section on page 2. If you used standard deduction, the amount of the deduction may change if line 1 has changed.

NOTE: For tax year 1978 or 1979, you may claim the larger of standard or itemized deductions for Oregon regardless of your election on the federal return. If you itemized deductions for 1978, use your net itemized deductions, line 15c, Form 40. For 1979 use line 17, Form 40.

Line 5, **Exemptions.** The number of exemptions should generally be the same as reported on the federal income tax return. The amount of the deduction should be computed by multiplying the exemptions by the amount indicated on the Oregon Form 40 for the year you are amending.

Line 6, **Federal Income Tax.** This is the amount from line 9, Form 40 for 1977. For tax years 1978 and 1979 federal income tax is included as a subtraction on line 3. For limitations on federal income tax subtractions, see FEDERAL INCOME TAX below.

Line 7, **Oregon Taxable Income.** This amount is computed by adding lines 1 and 2, then subtracting from that total, lines 3, 4, 5, and 6. The amount on this line is the income upon which the tax will be computed.

FEDERAL INCOME TAX

Federal income taxes paid in 1978 and prior years, including those resulting from a deficiency or a federal amended return are deductible in the year to which the tax relates, with two exceptions. 1) If the federal tax results from a contested deficiency, the additional tax is deductible in the year the liability is determined. 2) If the additional federal tax results from a change of election by the taxpayer, the additional tax is deductible in the year of the election change.

Beginning in 1979, if a prior year's federal tax is increased, the additional tax is deducted in the year paid or the year the adjustment is finally determined, whichever is later.

A federal refund (for which a tax benefit was received) reduces the federal income tax subtraction for the year in which the refund is received.

The federal tax subtraction is limited to $5,000 ($2,500 married filing separately) for tax years 1977 or 1978 and to $7,000 ($3,500 married filing separately) for 1979.

COMPUTATION OF TAX AND CREDITS

Line 8, **Tax.** Using Oregon taxable income from line 7, Column C, compute the amended Form 40 tax by using the graduated tax rates provided with the instructions for the year you are amending. If you are amending a Form 40S or 1977 Form 40 on which you used only page 1, use line 7, Column C, as a base for finding the tax in the tax table.

Line 9, **Minimum Tax.** If your amendments to Form 40 include items of tax preference, you must recompute your minimum tax by requesting and completing a minimum tax schedule for the year to be amended. Refer to the general instructions and graduated tax rate for the minimum tax for the tax year being amended. If your amendments do not affect your minimum tax, enter the amount of minimum tax computed on your original return or as previously adjusted.

Line 11, **Oregon Tax Withheld.** If there is a change in the amount of state tax withheld, enter amounts in Column A, B, and C to reflect the increase or decrease in withholding. Also attach a copy of any additional W-2 forms received to support the changes reflected in the amended return.

Line 12, **Other Credits.** This line includes credits for the elderly, disability, weatherization, retirement income, taxes paid to other states or countries, child care, political contributions and others. Credit for taxes paid to another state or country should be applied against the Oregon tax for the same tax year in which the out-of-state income is taxed.

Line 13, **Amount Paid.** Enter here the amount actually paid on the balance due per the original Oregon return. Also, include payments made for any additional tax adjustments to this return.

Line 14, **9% Rebate.** A 9% rebate was paid on 1978 returns based on Oregon tax liability after credits. To determine the net change in the 9% rebate received, subtract line 12, Column B, from line 10, Column B. This amount is the net change in your Oregon tax liability. Multiply the amount by 9% (.09) to determine the net change in your 9% rebate. If your Oregon tax liability has increased, enter the increased rebate on line 14. If your Oregon tax liability has decreased, enter the decreased rebate as a subtraction < > on line 14.

Line 16, **Refund Claimed.** Enter the amount of refund received (or expected to be received) according to your original Oregon return (Form 40 or 40S). This amount must be considered in preparing your amended return, since any refund due you from your original return will be refunded **separately** from any additional refund claimed on this amended return. Also, adjust the amount on this line for any additional refund you may have received as a result of a previous adjustment to your original return. For 1979, the amount to enter on this line is the refund before any non game wildlife contribution.

Line 18, **Refund Requested.** If the tax as redetermined on line 10, Column C, is less than the net credit on line 17, your amended return will be processed as a claim for refund separate from any refund claimed on your original return.

Line 19, **Additional Tax.** If the recomputed tax on line 10, Column C, is more than the net credit on line 17, you will owe additional tax as shown on this line.

Line 20, **Interest on Additional Tax.** The interest on tax due is 1 percent per month or fraction thereof from the due date of the return until paid.

Line 21, **Balance Due.** Enter the balance due, if any, from line 40. If this line shows a balance due and line 18 shows a refund, STOP HERE. The Department of Revenue will compute your total refund or balance due.

Line 22, **Interest on Balance Due on Line 21.** Interest on property tax refunds for October, 1977, and after is generally computed from October 15 in the year of the refund to the date of repayment.

Interest is 1% per month or fraction thereof until paid.

Line 24, **Property Tax To Be Refunded.** Enter the amount shown on line 39. If you show a refund on this line and a balance due on line 23, **do not** net them by subtracting one from the other. You must pay the amount on line 23, and you will be refunded the amount on line 24.

CHANGES TO A REFUND CLAIM FILED ON FORM 70R

Line 25, **Household Income.** This line is the total household income of the taxpayer and spouse as entered on Form 70R or as previously adjusted. This line should be corrected and the property tax refund recomputed if your federal adjusted income has changed.

Line 26, **OWNER: Property Tax.** This line is to be completed only if you owned your Oregon homestead on December 31 of the tax year you are amending. Enter the amount of property tax levied on your homestead. If the property tax is being corrected, a copy of the property tax statement must be submitted to verify the change.

Line 27, **State Payment.** For 1978 enter 30% of line 26. For 1979 enter the amount shown as "state paid" on your property tax statement.

Line 28, **Adjusted Property Tax.** For 1977 enter the amount shown on line 26. For 1978 and 1979 subtract line 27 from line 26.

Line 29, RENTER: 17% of Rent Paid. For tax years 1977 and 1978, complete this line only if you were renting a home subject to property tax on December 31 of the tax year.

For 1979 complete this line only if:
1) You rented an Oregon residence in 1979; and
2) Your residence was subject to property tax; and
3) You didn't own your residence on December 31, 1979. It is not necessary for you to be renting on that date.

Line 30, 4.7% of Rent Paid. For 1977, make no entry on this line. Note: for 1979 the percentage on line 30 is an estimate. The percentage will depend on the funds available for the program. This means your refund may differ.

Line 32, **Maximum Refund.** Using the household income on line 25, Column C, enter the maximum refund as determined from the table provided with the general instructions for the year you are amending. **Exception:** Tax year 1978 must use 1979 tables.

Line 33, **Tentative Property Tax Refund.** If you filed as an owner, enter the amount from line 28, Column C, or line 32, whichever is less. If you filed as a renter, enter the amount from line 31, Column C, or line 32, whichever is less.

Line 34, **Special Shelter Allowance (ADC).** Enter the amount of Special Shelter Allowance you received during the year which is being amended.

Line 36, **Renters Relief.** Renters for 1978 and 1979 are eligible for 4.7 percent (maximum $400) of total rent paid. For 1979 see note on line 30, instructions above.

Line 37, **Total Refund.** Add lines 35 and 36.

Line 38, **Refund Already Received.** This is the amount of refund received (or expected to be received).

Line 39, **Amount To Be Refunded.** If your total refund on line 37 is larger than the refund already received as shown on line 38, enter the additional refund on this line. Also, put this amount on line 24.

Line 40, **Additional Amount Due.** If the amount of refund already received as entered on line 38 is larger than the refund on line 37, enter the amount due on this line. Also, put this amount on line 21.

EXEMPTIONS

This part should be completed if you are changing the exemptions claimed for yourself, spouse, or dependents. If claiming additional dependents, please provide a complete explanation why this dependent was not claimed on your original return. Indicate name, address and social security number of anyone else you believe may also be claiming this dependent.

EXPLANATION

Provide a complete and detailed explanation of all amended items. Please number each explanation and indicate by line number where the change is reflected on the front of the 40-X. If your filing status changed, furnish an explanation of the change.

NONRESIDENTS AND PART-YEAR RESIDENTS

Oregon Form 40-X cannot be used to file amended returns for part-year or nonresident taxpayers. These taxpayers may amend by:

1. Request a tax packet for tax year to be amended.
2. Mark return "AMENDED."
3. Prepare return as it should have been prepared.
4. Attach an explanation of your changes.
5. If you compute additional tax due, compute interest at 1 percent per month or fraction thereof from the due date of the return until paid. Interest should be included in your payment but shown separately on the amended return.

WHERE TO FILE

Mail amended returns and your payment to the Oregon Department of Revenue, State of Oregon, Salem, Oregon 97310.

OREGON
AMENDED INDIVIDUAL INCOME TAX RETURN

FORM
40-X

FOR TAX YEAR ____________

For Office Use			
Code	Tax	P & I	Payment

Last name	First name and initial	Social Security number
Spouse's last name, if different and joint return	Spouse's first name and initial, if joint return	Spouse's Social Security number
Address		Telephone number
City County State ZIP Code		

INCOME AND DEDUCTIONS	A. As originally reported or as adjusted (See Specific Instr.)	B. Net change (Increase or Decrease—explain on Pg. 2)	C. Correct amount
1. Income			
2. Additions			
3. Subtractions			
4. Deductions (see instructions)			
5. Exemptions			
6. Federal Income Tax (1978 and 1979 Form 40S and 1977 Form 40)			
7. Oregon Taxable Income or Taxable Balance			

TAX AND CREDITS

8. TAX			
9. MINIMUM TAX (See Instructions)			
10. TOTAL OREGON TAX (Add lines 8 & 9)			
11. Oregon Income Tax Withheld			
12. Other Credits			
13. Amount paid with original return and any subsequent payment(s) for the tax year			
14. 9% Rebate (1978 ONLY see instructions)			
15. Total Credits (lines 11, 12, 13, and 14, Column C.)			
16. Less: Any Refunds (include Form 70R refunds only if prior to tax year 1977)			< >
17. Net Credit (subtract line 16 from line 15)			

REFUND OR BALANCE DUE

18. Amount to be REFUNDED (if line 17 exceeds line 10, Column C)	
19. Additional tax (if line 10, Column C is greater than line 17)	
20. Interest on additional tax (see instructions)	
21. Balance Due from line 40 (see instructions)	
22. Interest on Balance Due on line 21 (see instructions)	
23. BALANCE DUE (add lines 19, 20, 21 and 22) Pay in full with this return	
24. Property tax to be REFUNDED (from line 39)	

Mail this return to: Oregon Department of Revenue, State of Oregon, Salem, Oregon 97310

Under penalties of false swearing, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief this amended return is true, correct, and complete.

Sign ♦ .... Your signature Date

♦ .... Signature of preparer other than taxpayer, based on all information of which he has any knowledge. Date

here ♦ .... Spouse's signature (if filing jointly, BOTH must sign even if only one had income)

.... Address

(40-X)
150-101-046 (12-79)

BE SURE TO COMPLETE PAGE 2

PROPERTY TAX REFUND	Tax Year 1977 A. As originally reported or as adjusted	 B. Net change (Increase or Decrease)	 C. Correct Amount	Tax Years 1978 & 1979 A. As originally reported or as adjusted	 B. Net change (Increase or Decrease)	 C. Correct Amoun
25. Household Income						
26. Owner: Property Tax						
27. Less: State Payment	▨	▨	▨			
28. Adjusted Property Tax						
29. Renter: 17% of Rent Paid						
30. Less: 4.7% of Rent Paid	▨	▨	▨			
31. Line 29 minus Line 30						
32. Maximum Refund						
33. Tentative Property Tax Refund						
34. Special Shelter Allowance (ADC)						
35. Property Tax Refund (line 33 minus line 34)						
36. Renter Relief (enter amount from line 30, column C)			▨			
37. Total Refund						
38. Less: Refund Already Received						
39. Amount to be Refunded (if line 37 is more than line 38) (Also enter this amount on line 24)						
40. Additional Amount Due (if line 38 is more than line 37) (Also enter this amount on line 21)						

EXEMPTIONS

1. Additional exemptions for Yourself—and Spouse (Check only those boxes not checked on original return)

	Regular	65 or over	Blind	Enter number of boxes checked
Yourself	☐	☐	☐	
Spouse	☐	☐	☐	

Dependents not claimed on original return	(a) NAME	(b) Relationship	(c) Months lived in your home. If born or died during year also write "B" or "D"	(d) Did dependent have gross income over $750 for tax years 1977 or 1978? Or over $1000 for 1979? If so, indicate total income.	(e) Amount YOU furnished for dependent's support. If 100% write "ALL"	(f) Amount furnished by OTHERS including dependent. See instructions.

3. Number of exemptions claimed on original return ☐ 4. Total number of exemptions claimed ☐

EXPLANATION OF CHANGES MADE. Show computations in detail. Attach applicable schedules.

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Form **1045**
(Rev. January 1981)
Department of the Treasury
Internal Revenue Service

Application for Tentative Refund

(From Carryback of Net Operating Loss, Unused Investment Credit, Unused Work Incentive (WIN) Program Credit, Unused Jobs Credit, OR Overpayment of Tax Due to a Claim of Right Adjustment Under Section 1341(b)(1))
▶ For use by taxpayers other than corporations.

Do Not Attach to Your Income Tax Return—File Separately to Expedite Processing

Please type or print

Name
Number and street
City or town, State and ZIP code

Employer identification number
Your social security number
Spouse's social security number

1 Return for year of net operating loss, unused investment credit, unused WIN credit, unused jobs credit, or overpayment under section 1341(b)(1) . . . . . . ▶	(a) Tax year ended	(b) Date filed	(c) Service center where filed

	(a) Net operating loss (from page 2, line 10)	(b) Unused investment credit	(c) Unused WIN credit	(d) Unused jobs credit
2 This application is filed to carryback: ▶	$	$	$	$

3 (a) Preceding tax year(s) affected by carryback	(b) Did spouse file a separate return?	(c) Service center where return(s) filed (City and State)
3d	☐ Yes ☐ No	
2d	☐ Yes ☐ No	
1st	☐ Yes ☐ No	

4 If you changed your accounting period, give date permission to change was granted ▶

5 Have you filed a petition in Tax Court for the year or years to which the carryback is to be applied? . . . . ☐ Yes ☐ No

Computation of Decrease in Tax	3d preceding tax year ended ▶		2d preceding tax year ended ▶		1st preceding tax year ended ▶	
	(a) Before carryback	(b) After carryback	(c) Before carryback	(d) After carryback	(e) Before carryback	(f) After carryback
6 Adjusted gross income as last determined .						
7 Net operating loss deduction resulting from carryback (See Instructions—Attach computation)	▨		▨		▨	
8 Subtract line 7 from line 6						
9 Deductions						
10 Subtract line 9 from line 8						
11 Exemptions						
12 Taxable income (subtract line 11 from 10) .						
13 Income tax						
14 Foreign tax credit						
15 Investment credit (see instruction H) . .						
16 WIN credit (see instruction H)						
17 Jobs credit (see instruction H)						
18 Other credits						
19 Total credits (add lines 14 through 18) .						
20 Subtract line 19 from line 13						
21 Tax from recomputing prior-year investment credit						
22 Minimum tax						
23 Alternative minimum tax						
24 Self-employment tax						
25 Other taxes						
26 Total tax liability (add lines 20 through 25) .						
27 Enter amount from line 26 column (b) .		▨	▨	▨	▨	▨
column (d) .	▨	▨		▨	▨	▨
column (f) .	▨	▨	▨	▨		▨
28 Decrease in tax (subtract line 27 from 26) .		▨		▨		▨

29 Overpayment of tax due to a claim of right adjustment under section 1341(b)(1)—attach computation (see instruction I) . . . . .

Under penalties of perjury, I declare that I have examined this application (including any accompanying schedules and statements), and to the best of my knowledge and belief it is true, correct, and complete.

(Your signature and date) (If application is filed jointly, both you and your spouse must sign) (Spouse's signature and date)

Form **1045** (Rev. 1-81)

Schedule A (Form 1045)—Computation of Net Operating Loss

1 Adjusted gross income from Form 1040, line 32 (estates and trusts—see instructions) **1**

2 Deductions (applies to individuals only):

a Enter amount from Form 1040, line 33 . . . . **2a**

b On your 1980 Form 1040, if you checked Filing Status box . {2 or 5, enter $3,400; 1 or 4, enter $2,300; 3, enter $1,700 . .} **2b**

c Multiply $1,000 by the total number of exemptions on Form 1040, line 7 **2c**

d Add lines 2a through 2c (estates and trusts, enter zero) **2d**

3 If line 1 is zero or less, add lines 1 and 2d. If line 1 is more than zero, subtract line 2d from line 1 . . **3**

Note: *If result is zero or more, do not complete rest of schedule. You do not have a net operating loss.*

Adjustments:

4 Exemptions from line 2c above, or your tax return **4**

5 Enter your 60% capital gain deduction from Schedule D, Form 4798, or that was excluded from Form 1040, line 15 . . . . **5**

6 a Enter the excess of your nonbusiness capital losses over your nonbusiness capital gains . . **6a**

b Enter the excess of your business capital losses over your business capital gains plus nonbusiness capital gains not used in figuring line 8(c) **6b**

c Enter total of lines 6(a) and 6(b) but not more than the capital loss deduction shown on your return **6c**

7 Net operating loss deduction from other years **7**

8 a Nonbusiness deductions **8a**

b Nonbusiness income plus the excess of your nonbusiness capital gains over your nonbusiness capital losses **8b**

c Subtract line 8b from line 8a. If 8b is more than 8a, enter zero **8c**

9 Add lines 4, 5, 6c, 7, and 8c **9**

10 Subtract line 9 from line 3. This is your net operating loss. Enter here and on page 1, line 2a . . . **10**

Caution: *If the amount to be entered on line 10 is zero or more, you do not have a net operating loss.*

Instructions for Schedule A (Form 1045)—Computation of Net Operating Loss

Use this schedule to figure your net operating loss that is available for carryback or carryforward.

Line 1.—Individuals, enter your adjusted gross income from Form 1040, line 32. Estates and trusts, enter your taxable income from your appropriate tax return.

Line 6.—If your business capital gains plus your nonbusiness capital gains not used in figuring line 8(c) exceed your business capital losses, enter zero on line 6(b). If you have a net capital loss for the year, limit the total of the amounts on lines 6(a) and 6(b) to the amount of your capital loss deduction shown on your return. For more information, see regulations section 1.172–3 and Publication 535, Business Expenses and Operating Losses

Line 8(a) and 8(b).—Nonbusiness income and deductions are those not connected with a trade or business.

Your zero bracket amount from line 2(b), above, is allowed as a nonbusiness deduction if the election to itemize deductions has not been made. Itemized deductions, if elected, are usually nonbusiness also except for casualty loss deductions and any employee business expenses such as union dues, uniforms, tools, and educational expenses.

Salaries and wages you received are trade or business income.

Gain or loss on sale or other disposition of real or depreciable property used in your trade or business is considered business income.

Loss on the sale of accounts receivable, if such accounts arose under the accrual method of accounting in your business, is included as a business deduction.

Casualty losses and theft losses are considered attributable to your trade or business. This is true even if it involves nonbusiness property.

Your proportionate share of a partnership's income or loss is considered business income or loss.

Losses on stocks in small business corporations which qualify as ordinary losses are business losses.

Shareholders of an electing small business corporation (Subchapter S) may treat their allowable pro rata share of the corporation's net operating loss as a business loss. Any share of the income or gain, other than salaries, from a subchapter S corporation is treated as nonbusiness income or gain.

Loss resulting from the sale or exchange of small business investment company stock which qualifies as an ordinary loss, is considered as a loss attributable to your trade or business.

The deduction allowed for payments made by a self-employed person to a retirement plan is treated as a nonbusiness deduction.

General Instructions For Form 1045

(Section references are to the Internal Revenue Code unless otherwise specified)

A. Purpose of Form.—An individual, estate or trust must use this form to apply for:

(1) A quick refund of taxes from carryback of a net operating loss, unused investment credit, unused WIN credit, or unused jobs credit.

(2) A quick refund of taxes from an overpayment of tax due to a claim of right adjustment under section 1341(b)(1).

Do not attach Form 1045 to your income tax return.

B. Special Rules.—

Carryback. If you filed a joint return for some, but not all of the tax years involved in the carryback, see section 1.172–7 of the regulations before applying the carryback.

You may elect to carry forward a net operating loss instead of first carrying it back by attaching a statement to this effect on a timely filed return (including any extensions) for the year of the loss. Once you make such an election, it is irrevocable for that tax year. The carryforward is limited to 7 years, whether or not a carryback is used first.

C. Time and Place for Filing.—This form must be filed with the Internal Revenue Service Center where your tax return is required to be filed. It must be filed within 1 year after the end of the year in which the net operating loss, unused credit, or claim of right adjustment arose, but only after the return for such year is filed.

In the following cases, if an unused credit arises, it may be carried back 3 additional years.

- A net operating loss carryback eliminates or reduces an investment credit, WIN credit, or jobs credit in a prior year.
- An investment credit carryback reduces a WIN credit or jobs credit in a prior year.
- A WIN credit carryback reduces a jobs credit in a prior year.

Since the unused credit created affects the taxes of a year or years before the 3 years preceding the loss year, or unused credit year, a second Form 1045 must be used for such year(s). In such case, the second application must also be filed within 1 year after the year of the net operating loss or unused credit. To expedite processing, both Forms 1045 should be filed together.

D. Allowance of Adjustment.—The Internal Revenue Service will act on this application within a period of 90 days from the later of:

(1) The date on which this application is filed; or

(2) The last day of the month in which falls the due date (including any extension of time granted) of the return for the tax year of the net operating loss or unused credit. (For an overpayment of tax under section 1341(b)(1), 90 days from the date of the overpayment.)

Additional Information.—We may need to contact you (or your authorized representative if you have one) for additional information in order to be able to act on your application within 90 days. If you wish to designate a representative for us to contact (for example your accountant or tax return preparer), please attach a copy of your authorization form to Form 1045. Form 2848, Power of Attorney and Declaration of Representative, or Form 2848–D, Tax Information Authorization and Declaration of Representative, may be used for this purpose.

E. Disallowance of Application.—The Internal Revenue Service may disallow any application which contains material omissions, or errors of computation which it deems cannot be corrected by it within the 90-day period. This application for a tentative carryback adjustment is not a claim for credit or refund. If it is disallowed in whole or in part, no suit may be brought in any court for the recovery of that tax. You may, however, file a claim for refund before the expiration of the period of limitation, as explained in instruction G.

F. Assessment of Erroneous Allowances.—Any amount applied, credited, or refunded on the basis of this application which is later determined by the Internal Revenue Service to be excessive may be assessed as a deficiency as if it were due to a mathematical or clerical error appearing on the return.

G. Form 1040X (or other Amended Return.)—If you are an individual, you may obtain a refund by filing Form 1040X. An estate, trust, or fiduciary may file an amended return. Generally, Form 1040X (or amended return) must be filed within 3 years after the due date of the return for the tax year of the net operating loss or unused credit.

If you use Form 1040X or an amended return, attach a computation of your net operating loss. You may use Schedule A (Form 1045). A separate Form 1040X or amended return must be completed for each year you request an adjustment.

H. Carryback of Unused Investment Credit, Unused WIN Credit, or Unused Jobs Credit.—If you claim a tentative carryback adjustment based on the carryback of any of these credits, attach (1) a detailed schedule showing the computation of the credit carryback and (2) a recomputation of the credit after application of the carryback. Make the recomputation on the appropriate credit form (or on an attachment which follows the format of such form) for the tax year of the tentative allowance.

If the refund is only from a credit carryback, skip lines 6 through 12 when figuring the decrease in tax on page 1.

I. Overpayment of Tax under Section 1341(b)(1).—If you apply for a tentative refund based on an overpayment of tax under section 1341(b)(1), enter it on Form 1045, line 29. In addition, attach a computation which shows the information required in regulation section 5.6411–1(d).

J. Years to Which You May Carry a Net Operating Loss.—Generally, you must first carry a net operating loss back to the third tax year before the loss.

Any amount of the loss not used to offset taxable income (adjusted, as explained in instruction M) for the third preceding year is carried to the second preceding year. Any amount of the loss not used to offset such income for the third and second preceding years is carried to the first preceding year. Where the loss is not entirely used to offset taxable income (adjusted) in the 3 preceding years, the balance may be carried forward to the 7 succeeding years (after net operating loss year) in the order of their occurrence. The balance of the loss (if any) which is not applied in the 3 carryback and 7 carryover years, cannot be carried to any later tax years.

Example.—*You started in business in the calendar year 1980 and had a net operating loss for the year of $62,000. Before 1980 your income consisted of wages. Your taxable income (after necessary adjustments) in the other years to which the loss may be carried back or forward is as follows:*

Year	Net operating loss	Carryback or carryover	Adjusted taxable income	Unused carryback or carryover
1977 3rd preceding year . . .		$62,000	$2,000	$60,000
1978 2nd preceding year . . .		60,000	3,000	57,000
1979 1st preceding year . . .		57,000	5,500	51,500
1980 Loss year . . .	$62,000	. . .	. . .	. . .
1981 1st succeeding year . . .		51,500	7,000	44,500
1982 2nd succeeding year . . .		44,500	3,800	40,700
1983 3rd succeeding year . . .		40,700	10,700	30,000
1984 4th succeeding year . . .		30,000	6,000	24,000
1985 5th succeeding year . . .		24,000	2,500	21,500
1986 6th succeeding year . . .		21,500	9,000	12,500
1987 7th succeeding year . . .		12,500	11,000	1,500

The $1,500 carryover remaining at the end of 1987 may not be used in 1988 or any other year.

For election with respect to the part of a net operating loss from a foreign expropriation loss, product liability loss, and other exceptions to the general rule, see section 172(b) and the regulations.

K. Net Operating Loss Deduction.—The sum of your net operating loss carrybacks and carryovers is your net operating loss deduction for the tax year to which carried. Before you can figure your net operating loss deduction for the year, you must first determine what part of any net operating losses for any earlier or later tax years represents carryovers or carrybacks to the tax year under consideration. When you have more than one net operating loss to be carried to the same tax year, apply the loss from the earliest year first.

L. Computation When the Net Operating Loss Is Fully Absorbed in the Earliest Preceding Tax Year.—In refiguring your tax liability for the year to which the net operating loss is carried and fully absorbed, the deduction for charitable contributions is determined without regard to any net operating loss carryback. Any other deductions claimed, based on or limited to a percentage of your adjusted gross income (such as medical expenses) must be refigured on the basis of your adjusted gross income, determined after application of the net operating loss carryback. Also, any credits based on or limited by the tax must be refigured on the tax liability as determined after application of the net operating loss carryback.

Example.—*You, as a single individual, have a net operating loss for 1980 of $8,000. This loss will be carried back and applied against your income for 1977. Since there are no other carrybacks or carryovers to 1977, the $8,000 will be your net operating loss deduction. The computations of your tax liability for 1977, both before and after the carryback of the 1980 net operating loss, are shown below.*

1977	Before Carryback		After Carryback	
Adjusted Gross Income (AGI) as last determined		$17,000		$17,000
Less: Net operating loss deduction (fully absorbed)		—		8,000
Adjusted Gross Income (AGI) as adjusted by carryback . . .		$17,000		$ 9,000
Less excess itemized deductions:				
Contributions to United Way. (Although this is more than 50% of your AGI after the carryback, no adjustment is made because of the carryback)	$5,000		$5,000	
Medical expenses paid to physicians (actual payments of $970 limited to amounts in excess of 3% of your AGI, both before and after the carryback)	460		700	
Misc. itemized deductions .	900		900	
Total itemized deductions .	$6,360		$6,600	
Zero bracket amount . . .	2,200		2,200	
Excess itemized deductions . .		$ 4,160		$ 4,400
Tax table income		$12,840		$ 4,600
Tax on above		$ 1,879		$ 211
Less tax liability after carryback .		211		
Decrease in tax for 1977 (amount to be refunded)		$ 1,668		

M. Computation When the Net Operating Loss Is Not Fully Absorbed in Preceding Tax Year(s).—The amount of a net operating loss which you may carry to the next year, after applying it to a prior year or years, is the excess, if any, of the net operating loss carryback over the taxable income of such prior year(s) figured with the following modifications:

(1) Your deduction for capital losses must not be more than the capital gains included in gross income.

(2) You are not permitted any deduction for the excess of a net long term capital gain over a net short-term capital loss.

(3) Your taxable income for the prior tax year(s) is determined without taking into account the net operating loss carryback from the loss year or any later tax year. Net operating losses, otherwise allowable as carrybacks or carryovers, occurring in tax years before such loss year, are taken into account in figuring the taxable income for the prior tax year.

(4) You may not claim any personal exemptions.

(5) Any deductions claimed, except charitable contributions, which are based on or limited to a percentage of adjusted gross income (such as medical expenses) must be refigured on the basis of the adjusted gross income after application of adjustments (1), (2), and (3) above. The deduction for charitable contributions is determined using the same adjustments except that you do not take into account any net operating losses being carried back.

(6) Your zero bracket amount is allowed as a deduction. This amount is $3,200 ($3,400 in 1979 and later years) if married filing joint return or qualifying widow(er) with dependent child, $2,200 ($2,300 in 1979 and later years) if single or head of household, or $1,600 ($1,700 in 1979 and later years) if married filing separately.

The taxable income as modified is to be considered not less than zero.

Example.—*You, as a single individual had a net operating loss for the calendar year 1980 of $8,000 that you have carried back to 1977. Your taxable income for 1977 was $6,940 consisting of your salary of $15,000 less the following: $2,000 deduction for capital losses, excess itemized deductions of $5,310 and personal exemptions of $750. Your excess itemized deductions consisted of charitable contributions of $6,500 ($8,000 actually given but deduction limited to 50% of $13,000 adjusted gross income); medical expenses of $110 ($500 actually paid but deductions limited to expenses in excess of 3% of $13,000 adjusted gross income); other itemized deductions of $900: less your zero bracket amount of $2,200.*

Net operating loss for 1980				$8,000
Less taxable income for 1977 figured with required modifications:				
Salary			$15,000	
Less allowable deduction for capital losses .			0	
Adjusted gross income			$15,000	
Less excess itemized deductions:				
Charitable contributions (adjusted to limit deduction to 50% of $15,000 adjusted gross income) . . .	$7,500			
Medical expenses (adjusted to limit deduction to amount in excess of 3% of $15,000 adjusted gross income)	50			
Other itemized deductions	900			
	8,450			
Zero bracket amount .	(2,200)			
Excess itemized deductions . .		$6,250		
Less personal exemptions allowed .		0		
Less zero bracket amount . . .		2,200		
Total deductions			$8,450	
Taxable income for 1977 as modified				$6,550
Amount of 1980 net operating loss (unused) to be carried to 1978				$1,450

Line-By-Line Instructions For Form 1045

Enter in columns (a), (c) and (e) your tax for the applicable carryback year as shown on your original or amended return. If the return was examined, enter the amounts that were determined as a result of the examination.

Line 9—Deductions.

Individuals.—Enter the amount shown on your Form 1040, line 33. If you used Form 1040A, enter zero. If you made an entry on Schedule TC, Form 1040, Part II, line 4, enter that amount on this line. Then add lines 8 and 9, instead of subtracting, and enter the result on line 10.

Line 10.—If you are an individual and you use the Tax Tables, make no entry on lines 11 and 12. Also, do not take the general tax credit. Enter on line 13 the tax on the income reported on line 10.

Line 13—Income Tax.—Refigure your tax after the carryback to determine the tax decrease. Include in the tax before carryback, amounts shown on your original or amended return, and later adjusted, based on an examination of your return.

Attach a detailed computation of the new tax liability shown on line 13, columns (b), (d), and (f). The tax form and instructions for the applicable year will be helpful in making this computation. Include in the amount on line 13 any tax from Form 4970, Form 4972, Form 5544, Form 5405, and any section 72 (m)(5) penalty tax.

If you qualified for income averaging for a particular year, you may later become disqualified or have a reduced benefit because of a net operating loss carryback. A net operating loss carryback may also make you eligible for income averaging for a year you previously failed to qualify.

Line 18—Other Credits.—See your tax return for the carryback year for any additional credits (such as general tax credit, credit for the elderly, credit for contributions to candidates for public office, residential energy credits, etc.) that will apply in that year. If there is an entry on line 18, identify the credit(s) claimed.

Line 22—Minimum Tax.—Refigure your minimum tax for a prior year in which you had items of tax preference, if a net operating loss or unused credit was carried back to that year. Attach a recomputation of the minimum tax for the prior year using Form 4625.

Line 23—Alternative Minimum Tax.—Carryback of an unused credit to 1979 or later, may increase your alternative minimum tax or first cause you to be liable. A carryback of a net operating loss to 1979 or later, may reduce your alternative minimum tax. Use Form 6251 to figure this tax and attach a copy if there is any change to your alternative minimum tax liability.

Line 24—Self-employment Tax.—Make no adjustment to the self-employment tax because of any net operating loss carryback.

Line 25—Other Taxes.—See your tax return for the carryback year for any additional add on taxes not previously listed, such as tax from recomputing prior year WIN credit, that will apply in that year. If there is an entry on line 25, identify the applicable tax(es).

U.S. GOVERNMENT PRINTING OFFICE e70—313-398

Form **4625**
Department of the Treasury
Internal Revenue Service

Computation of Minimum Tax—Individuals

▶ See instructions on back.
▶ Attach to Form 1040.

OMB No. 1545-0174
1981
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Name(s) as shown on Form 1040	Your social security number

File this form if the total of tax preference items (line 2) is more than $10,000 ($5,000 if you are married filing separately) even though you owe no minimum tax, **OR** if you have any minimum tax liability deferred from an earlier tax year until this year.

1 Tax preference items: **(Note:** Adjusted itemized deductions and capital gains are tax preference items for the alternative minimum tax. See Form 6251.)				
(a) Accelerated depreciation on real property—				
(1) Low-income rental housing (167(k))			1a(1)	
(2) Other real property that is nonrecovery property or 15-year real property			1a(2)	
(b) Accelerated depreciation on leased property that is personal property or recovery property other than 15-year real property			1b	
(c) Amortization of certified pollution control facilities			1c	
(d) Amortization of railroad rolling stock			1d	
(e) Amortization of on-the-job training facilities			1e	
(f) Amortization of child care facilities			1f	
(g) Reserves for losses on bad debts of financial institutions			1g	
(h) Stock options			1h	
(i) Depletion			1i	
(j) Intangible drilling costs			1j	
2 Total tax preference items. Add lines 1(a) through 1(j)			2	
3 Amount from Form 1040, line 47*	3			
4 Tax from recomputing prior-year investment credit (from Form 1040, line 50)	4			
5 Tax on premature redemption of Individual Retirement Bond(s)	5			
6 Add lines 3 through 5	6			
7 Enter the larger of: (a) one-half of the amount on line 6, or (b) $10,000 ($5,000 if you are married filing separately)			7	
8 Subtract line 7 from line 2 (If line 7 is more than line 2, enter zero)			8	
9 Multiply amount on line 8 by 15%			9	
10 Enter any 1981 net operating loss carryover to 1982 (attach statement showing computation)	10			
11 Multiply amount on line 10 by 15%	11			
12 Deferred minimum tax. Enter the amount from line 9 or line 11, whichever is smaller			12	
13 Minimum tax. Subtract line 12 from line 9			13	
14 Enter minimum tax deferred from earlier year(s) until this year (attach computation)			14	
15 Total minimum tax. Add lines 13 and 14			15	
16 Excess tax credits. If Form 1040, line 47, is more than zero, this section will not apply; skip lines 16(a) through 17 and enter the amount from line 15 on line 18.				
(a) Credit for the elderly	16a			
(b) Credit for political contributions	16b			
(c) Credit for child care expenses	16c			
(d) Residential energy credits	16d			
17 Add lines 16(a) through 16(d)			17	
18 Subtract line 17 from line 15. If line 17 is more than line 15, enter zero. Enter here and on Form 1040, line 49a			18	

*Do not include any tax from Form 4970, Form 4972, Form 5544, or any penalty tax under sec. 72(m)(5).

For Paperwork Reduction Act Notice, see back of form.

Instructions

(Section references are to the Internal Revenue Code)

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Line 1. Tax preference items.—

(a) Accelerated depreciation on real property.—

For property other than recovery property, enter on the appropriate line(s), the amount you get (never less than zero) by subtracting the depreciation that would have been allowable for the year if you had used the straight-line method, from the depreciation actually allowable. Figure this amount separately for each property.

Note: *If you amortized certain rehabilitation expenditures for certified historic structures or other section 1250 property over a 5 year period, include in line 1(a)(2) the amount you get by subtracting the straight-line depreciation based on the normal useful life of the improvement, from the amount of this amortization.*

Include in line 1(a)(2), accelerated depreciation on 15-year real property. Enter the amount by which the deduction allowed under section 168(a) is more than the deduction which would have been allowable had the property been depreciated using a 15 year period and the straight-line method without salvage value.

(b) Accelerated depreciation on leased property that is personal property or recovery property other than 15-year real property.—For property other than recovery property, enter the amount you get (never less than zero) by subtracting the depreciation that would have been allowable for the year if you had used the straight-line method, from the depreciation actually allowable. Figure this amount separately for each property.

For recovery property (other than 15-year real property), enter the amount by which the deduction under section 168(a) is more than the deduction allowable using the straight-line method (with a half year convention and no salvage value) over the following recovery periods:

3 year property	5 years
5 year property	8 years
10 year property	15 years
15 year public utility property	22 years

(c) through (f). Amortization of (c) certified pollution control facilities, (d) railroad rolling stock, (e) on-the-job training facilities, and (f) child care facilities.—In items (c), (d), (e), and (f), enter the amount by which the amortization allowable for the year is more than the depreciation deduction otherwise allowable.

If you use the Class Life Asset Depreciation Range (CLADR) System, note the following:

- The asset guideline period provided is considered the same as straight-line useful life for lines 1(a) and 1(b).
- Any variance in useful life allowable under section 167(m)(1) is also considered the same as straight-line useful life for purposes of figuring tax preference item (a) but not (b).
- For lines 1(c) through 1(f), the asset guideline period provided (including any variance in useful life) is considered the useful life of the property in figuring the depreciation deduction otherwise allowable.

(g) Reserves for losses on bad debts of financial institutions.—Enter your share of the excess of the addition to the reserve for bad debts over the reasonable addition to the reserve for bad debts that would have been allowable if you had maintained the bad debt reserve for all tax years based on actual experience.

(h) Stock options.—If you received stock by the exercise of a qualified stock option (as defined in section 422(b)) or a restricted stock option (as defined in section 424 (b)), enter the amount by which the fair market value of the shares at the time of exercise was more than the option price.

(i) Depletion.—Enter the amount you get (never less than zero) in the following way: From the deduction for depletion allowable under section 611, subtract the adjusted basis of the property at the end of the year. Include percentage depletion for geothermal deposits. Figure the adjusted basis without regard to the depletion deduction for the tax year, and figure the excess separately for each property.

(j) Intangible drilling costs.—Excess intangible drilling costs are a tax preference item only to the extent that they are more than your net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs in the following way: From the allowable intangible drilling and development costs (other than costs in drilling a nonproductive well), subtract the amount that would have been allowable if these costs had been capitalized and then (unless you make an election under section 57(d)(2)) amortized over a 120-month period beginning with the month production first began.

The net income from oil, gas, and geothermal properties is the gross income from these properties minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure this tax preference item separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Limitations on Amounts Treated as Tax Preference Items in Certain Cases.—For limitations when the tax preference item did not result in a tax benefit, see section 58(h). If limitations apply, attach a schedule showing computation.

Partners, Beneficiaries of Estates and Trusts, etc.—If you are a partner, you must take into account separately your distributive share of items of income and deductions when figuring tax preference items. If you elected the optional adjustment to basis (see section 743), adjust the tax preference items that apply to reflect the election.

If you are a:

- beneficiary of an estate or trust, see section 58(c);
- shareholder of an electing small business corporation, see section 58(d);
- participant in a common trust fund, see section 58(e);
- shareholder or holder of beneficial interest in a regulated investment company or a real estate investment trust, see section 58(f).

If you have tax preferences attributable to foreign sources, see section 58(g).

Line 7. Adjustment in exclusion.—If this is a short-period return use the formula in section 443(d)(2) to determine the adjustment in exclusion for figuring the minimum tax on tax preference items.

Line 14. Minimum tax deferred from earlier year(s).—If a net operating loss carryover from an earlier year(s) reduces taxable income for 1981, and the net operating loss giving rise to the carryover resulted in the deferral of minimum tax in that earlier year(s), all or part of the deferred minimum tax may be includible on line 14 as tax liability for 1981. Figure the deferred minimum tax at 15%. See section 56(b).

Line 16. Excess tax credits.—If Form 1040, line 47, is zero, you may be able to claim any unused part of certain credits against your minimum tax. Apply the credits in the order listed on this form. For example, if Form 1040, line 47 is zero after applying the credit for the elderly and a part of the credit for political contributions, apply the balance of the credit for political contributions, credit for child care expenses, and residential energy credits to the extent of the minimum tax on Form 4625, line 15. On lines 16(a) through 16(d), enter only that part of the credit or credits not used to reduce the tax on Form 1040, line 37.

For more information about minimum tax, see **Publication 909**, Minimum Tax and Maximum Tax.

Form **6251**
Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax Computation

▶ See instructions on back
▶ Attach to Forms 1040, 1040NR, 1041 or 990–T (Trust).

OMB No. 1545-0227
1981
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Name(s) as shown on tax return	Identifying number

Part I Computation of Alternative Minimum Tax

1 Adjusted gross income from Form 1040, line 32a or Form 1040NR, line 33 (see instructions)			1	
2 Deductions (applies to individuals only):				
a Enter amount from Form 1040, line 32b or Form 1040NR, line 36	2a			
b On your 1981 Form 1040, if you checked Filing Status box . { 2 or 5, enter $3,400 1 or 4, enter $2,300 3, enter $1,700 }	2b			
c Multiply $1,000 by the total number of exemptions on Form 1040, line 6e	2c			
d Add lines 2a through 2c (estates and trusts, enter zero)			2d	
3 Subtract line 2d from line 1			3	
4 Tax preference items:				
a Adjusted itemized deductions	4a			
b Capital gain deduction	4b			
c Add lines 4a and 4b			4c	
5 Alternative minimum taxable income (add lines 3 and 4c)			5	
6 Tax on amount on line 5 from Part IV, line D or Part III, line 27			6	
7 Amount from Form 1040, line 47 (see instructions)	7			
8 Minimum tax from Form 1040, 1041, or 990–T	8			
9 Tax from recomputing prior-year investment credit	9			
10 Add lines 7 through 9			10	
11 Subtract line 10 from line 6. If zero or less, do not complete the rest of this form			11	
12 Foreign tax credit (see instructions)			12	
13 Subtract line 12 from line 11. If line 12 is more than line 11, enter zero			13	
14 Credits allowed against alternative minimum tax from Part II, line 21			14	
15 Alternative minimum tax (subtract line 14 from line 13.) If zero or less, enter zero. Enter here and on Form 1040, line 49b (estates and trusts—see instructions)			15	

Part II Computation of Credits Allowed Against Alternative Minimum Tax

16 Enter amount from line 3 above	16	
17 Enter 66⅔% of line 4b	17	
18 Subtract line 17 from line 16	18	
19 Tax on amount on line 18 from Part IV, line D	19	
20 Credits, other than Foreign Tax Credit, from Form 1040, line 46. (See instructions.)	20	
21 Enter line 19 or line 20, whichever is smaller. Enter here and on line 14 above	21	

Part III See instructions for line 6 before completing this part.

22 Enter amount from line 5 above	22	
23 Enter amount from line 29 of Schedule D (Form 1040 or Form 1041)	23	
24 Subtract line 23 from line 22	24	
25 Tax on amount on line 24 from Part IV, line D	25	
26 Enter amount from line 34 of Schedule D (Form 1040 or Form 1041)	26	
27 Add line 25 and line 26. Enter on line 6 above, only if less than the tax on amount on line 5 from Part IV, line D	27	

Part IV Alternative Minimum Tax Computation Schedules

Single, Married Filing Jointly, Qualifying Widow(er), or Head of Household

Not over $20,000 . . . . –0–

	Of the amount over	but not over	
A. 10%	$ 20,000	$ 60,000	–$
B. 20%	$ 60,000	$100,000	–$
C. 25%	$100,000	—	–$
D. Total (A+B+C)			–$

Married Filing Separately, or Estate or Trust

Not over $10,000 . . . . –0–

	Of the amount over	but not over	
A. 10%	$10,000	$30,000	–$
B. 20%	$30,000	$50,000	–$
C. 25%	$50,000	—	–$
D. Total (A+B+C)			–$

For Paperwork Reduction Act Notice, see back of form.

Instructions

(Section References are to the Internal Revenue Code)

Paperwork Reduction Act Notice

We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Use this form to figure your alternative minimum tax. An individual, estate or trust may be liable if they have: (1) tax preference items for adjusted itemized deductions or capital gain deduction; (2) an entry on Schedule D (Form 1040), line 9a and credits on Form 1040, line 46; or (3) nonbusiness credits for investment credit, WIN credit, or jobs credit.

If line 11 is more than zero, and 1 of the above 3 conditions are met, attach Form 6251 whether or not you are actually liable for the alternative minimum tax.

Line-by-Line Instructions

Line 1.—Do not include in line 1 any alcohol fuel credit included in income.

Note: *Line 1 and line 3 can be less than zero. However, when you figure lines 1 and 2, you cannot include a deduction for any loss or expense allowable in figuring a net operating loss that can be carried back or forward.*

If you used the worksheet on page 12 of the Form 1040 instructions or had an entry on Form 1040NR, line 37, enter the amount from line 5 of the worksheet or line 38 of Form 1040NR on line 1 of Form 6251 instead of the amount from Form 1040, line 32a or Form 1040NR, line 33. If you entered your earned income on line 3 of the worksheet, contact an Internal Revenue Service office.

Estates and trusts.—Enter the taxable income from Form 1041, line 25, or Form 990–T, page 1, line 5.

Line 4a.—Adjusted Itemized Deductions.

Individuals—Step 1.—Subtract the following from your total itemized deductions (Schedule A (Form 1040), line 39):

- *(1)* medical and dental expenses (Schedule A (Form 1040), line 10),
- *(2)* State, local, and foreign taxes (Schedule A (Form 1040), line 16),
- *(3)* casualty and theft losses (Schedule A (Form 1040), line 29), and
- *(4)* any deduction for estate tax allowable under section 691(c).

Step 2.—Subtract from your adjusted gross income (Form 1040, line 32a), the items in (1) through (4) of step 1. The result cannot be less than zero.

Step 3.—Multiply step 2 by 60%.

Step 4.—Subtract step 3 from step 1. Enter the result on line 4a. If less than zero, enter zero.

Estates and Trusts—

Step 1.—Add all deductions except:

- *(1)* those allowable in figuring adjusted gross income,
- *(2)* the deduction for personal exemption,
- *(3)* the deduction for casualty and theft losses,
- *(4)* the deduction for State, local, and foreign taxes,
- *(5)* the deduction allowed for distributions to beneficiaries,
- *(6)* the charitable deduction allowable to a trust to the extent that a corresponding amount is included in the gross income of the beneficiary of the trust, and
- *(7)* any deduction for estate tax allowable under section 691(c).

Step 2.—Subtract from adjusted gross income the items in (3) through (7) of step 1. The result cannot be less than zero.

Step 3.—Multiply step 2 by 60%.

Step 4.—Subtract step 3 from step 1. Enter the result on line 4a. If less than zero, enter zero.

Note: *Adjusted gross income for an estate or trust is figured in the same way as for an individual except that the following items are allowed in figuring adjusted gross income:*

- *(1)* the costs of administration of the estate or trust, and
- *(2)* the charitable deduction to the extent provided in section 57(b)(2)(C).

Line 4b.—Capital Gain Deduction

Individuals—Enter one of the following:

- *(1)* The amount from Schedule D (Form 1040), line 21;
- *(2)* The amount from Form 4798, Part I, line 9;
- *(3)* 60% of capital gain distributions if you did not use Schedule D or Form 4798.

Note: *Do not include as a tax preference item the capital gain deduction attributable to a sale or exchange of a principal residence.*

Estates and Trusts—

Enter the capital gain deduction taken into account on Form 1041 or 990–T. However, an amount paid or permanently set aside for a charitable purpose is not a tax preference item.

Lines 5 and 6.—If this is a short period return, use the formula in section 443 (d)(1) to determine the amount to enter on these lines.

Line 6.—In figuring line 6, complete Part III if line 5 is over $100,000 ($50,000 if married filing separately or estate or trust) and you have post 6/9/81 long-term capital gains. It may be necessary to complete the Alternative Tax part even if your tax bracket for the regular tax is under 50%.

Non-resident alien individuals.—If you disposed of U.S. real property interests at a gain, see Form 1040NR instructions for special rule in figuring line 6.

Line 7.—Do not include any tax from Form 4970, Form 4972, Form 5544, or any penalty tax under section 72(m)(5). Estates and trusts, enter the amount from Form 1041, line 30, or Form 990–T, page 1, line 11.

Line 12.—Foreign Tax Credit.

If line 11 is more than zero, and you incurred foreign taxes and elect to take them as a credit, enter on line 12 the foreign tax credit allowed against the alternative minimum tax. Use a separate Form 1116 to figure this credit. Do not use the Form 1116 you used to figure the credit on Form 1040, line 42. Figure this credit as follows:

(1) Use and attach a separate Form 1116 for each type of income specified at the top of Form 1116.

(2) Print across the top of each Form 1116 used: "ALT MIN TAX."

(3) **Part I**—Use your alternative minimum taxable income from sources outside the U.S. and items of gross income and deductions used in determining alternative minimum taxable income from sources outside the U.S. Part II need not be completed.

(4) **Part III—**
  - (a) Skip lines 1 to 4.
  - (b) Insert on line 5 the result of the following:
    - (i) the amount from Part III, line 5 of the Form 1116 used to figure the amount on line 42 of Form 1040, line 27a of Form 1041, or line 9(a) of Form 990–T minus
    - (ii) the amount from Part III, line 17 of that Form 1116, plus
    - (iii) the smaller of (A) the amount from Part III, line 17 of that Form 1116, or (B) Form 6251, line 11 (or if more than one Form 1116 is being used, an allocable portion of Form 6251, line 11).
  - (c) Complete lines 6 through 8, substituting alternative minimum taxable income from sources outside the U.S. for taxable income from sources outside the U.S. on line 6.
  - (d) Skip lines 9 and 10.
  - (e) Line 11—Enter the amount from Form 6251, line 5.
  - (f) Complete line 12 as indicated in Part III.
  - (g) Skip lines 13 and 14.
  - (h) Line 15—Enter the sum of Form 6251, lines 7, 9 and 11.
  - (i) Complete lines 16 and 17 as indicated in Part III.

(5) **Part IV—**
Enter on line 12, Form 6251, the amount from line 7, Part IV of this Form 1116 (but not more than the amount on Form 6251, line 11).

For more information on how to figure this credit, see **Publication 909,** Minimum Tax and Maximum Tax.

Line 15.—If you are filing Form 1041, enter the amount from this line on Form 1041, line 32. If you are filing Form 990–T, enter the amount from this line on Form 990–T, page 1, line 14.

Line 17.—If you had an entry on Schedule D (Form 1040), line 9a, include in line 17 the portion of Schedule D, line 9a included in Form 1040, line 12.

Line 20.—Credits.—Enter your credits, other than your foreign tax credit, as they appear on your tax return; Form 1040, line 46, Form 1041, line 29, or Form 990–T, line 10. Include WIN credit only to the extent it is from an active trade or business. Refigure investment credit using another Form 3468. Refigure jobs credit using another Form 5884. Include in line 21 of such Form 3468 and in line 15 of such Form 5884 only the credits from an active trade or business. In addition, substitute the amount in Form 6251, line 19 for line 22 of Form 3468 and line 16 of Form 5884. In refiguring your credits, do not reduce Form 6251, line 19 by any tax from Form 4972, 5544, or section 72(m)(5). Print "ALT MIN TAX" across the top of each Form 3468 and Form 5884 you use to refigure these credits. Attach them to this form.

It may be necessary to figure the carryback or carryover of unused credits. See section 55(c)(4).

Partners, Beneficiaries, etc. If you are a—

(1) Partner, take into account separately your distributive share of items of income and deductions that enter into the computation of tax preference items.

(2) Beneficiary of an estate or trust, see section 58(c).

(3) Shareholder of an electing small business corporation, see section 58(d).

(4) Participant in a common trust fund, see section 58(e).

(5) Shareholder or holder of beneficial interest in a regulated investment company or a real estate investment trust, see section 58(f).

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Minimum Tax Schedule M 1981

Last name	First name and initial	Social Security number
Spouse's last name if different and joint return	Spouse's first name and initial if joint return	Spouse's Social Security number

Fill in this schedule and pay the minimum tax on preference items if:

(1) You have preference items of more than $10,000 ($5,000 if married filing separately);

OR

(2) Your Oregon adjusted gross income (line 5, Form 40, or line 26b, Form 40NR) plus preference items subject to Oregon tax from lines 1a and 1b below total $20,000 or more ($10,000 if married filing separately); **AND**

Your total preference items are more than $3,000 ($1,500 if married filing separately).

Attach this schedule to your Oregon Form 40 or Form 40NR.

1. Tax preference items. **See instructions on back**			
a. Accelerated depreciation on real property	**1a.**		
b. Accelerated depreciation on leased personal property	**b.**		
c. Capital gains:			
(1). Capital gain deduction (federal Schedule D, line 21)	**c(1).**		
(2). Capital gain deduction from federal return (not on Schedule D)	**c(2).**		
(3). Capital gain deduction claimed only for Oregon	**c(3).**		
d. Adjusted itemized deductions	**d.**		
e. Stock options	**e.**		
f. Amortization of certified pollution control facilities	**f.**		
g. Amortization of railroad rolling stock	**g.**		
h. Amortization of on-the-job training facilities	**h.**		
i. Amortization of child care facilities	**i.**		
j. Excess intangible drilling costs	**j.**		
2. Total tax preference items (add lines 1(a) through 1(j))	**2.**		
3. **MINIMUM TAX** (from rate chart below). Fill in your tax here and on your Oregon Form 40, line 28, or Oregon Form 40NR, line 51	**3.**		

Minimum Tax Rate Charts

For MARRIED persons FILING SEPARATELY

If the sum of your tax preference items is:	**Your tax is:**
Not over $2,500	1 % of excess over $1,500
Over $2,500 but not over $3,500	$10 plus 1.5% of excess over $2,500
Over $3,500 but not over $4,500	$25 plus 2 % of excess over $3,500
Over $4,500 but not over $6,000	$45 plus 2.5% of excess over $4,500
Over $6,000	$62.50 plus 3 % of excess over $6,000

For persons filing JOINTLY, HEAD OF HOUSEHOLD, SINGLE, or QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD

If the sum of your tax preference items is:	**Your tax is:**
Not over $5,000	1 % of excess over $ 3,000
Over $ 5,000 but not over $ 7,000	$ 20 plus 1.5% of excess over $ 5,000
Over $ 7,000 but not over $ 9,000	$ 50 plus 2 % of excess over $ 7,000
Over $ 9,000 but not over $12,000	$ 90 plus 2.5% of excess over $ 9,000
Over $12,000	$165 plus 3 % of excess over $12,000

150-101-062 (10-81)

Instructions

1.a,b Accelerated depreciation on real or leased personal property.

If you claim accelerated depreciation on real property or leased personal property, you have a preference item. Fill in the amount claimed in excess of straight line depreciation.

Did you begin depreciating the property in 1981? If so, use the Oregon accelerated depreciation shown on your Oregon Depreciation Schedule. Then, refigure your Oregon depreciation using the straight-line method. Your preference item is the Oregon accelerated depreciation you claimed in excess of the Oregon straight-line depreciation.

1.c Capital gains.

c(1). Your capital gain deduction is a preference item. Fill in the amount from your federal Schedule D, line 21. There are two exceptions. Don't include the gain from the sale of your personal residence. Also, don't include the gain from the sale of your Oregon farm if you lived on the farm for at least five years just before the sale.

Did you have a capital gain on property you began depreciating in 1981? If so, figure the gain using the Oregon depreciation shown on your Oregon Depreciation Schedule. Then, figure your net long-term capital gain using the capital gain you figured for Oregon. Fill in 60 percent of your Oregon net long-term capital gain.

c(2). Include other federal capital gain items. The taxable part of the gain was reported on federal Form 1040, line 13. Fill in the part of the gain you excluded on your federal return.

c(3). Also include long-term capital gain deductions claimed for Oregon only. For example, fill in 60 percent of the capital gain portion of your lump sum distribution reported on line 7, Form 40; or line 30, Form 40NR.

1.d Adjusted itemized deductions.

Adjusted itemized deductions start with your total deductions for Oregon from Schedule A. Subtract casualty losses, medical expenses, state and local taxes or federal estate tax deduction. Subtract those same four items from your Oregon adjusted gross income. Figure 60 percent of the balance. If your adjusted itemized deductions are more than the 60 percent amount, the difference is a tax preference item. Use the following schedule to compute your adjusted itemized deductions and enter the amount on line 1d.

1. Total itemized deductions, Oregon Form 40, line 20 .... 1. ____________
2. Casualty losses, medical expenses, state and local taxes and federal estate tax deduction .... 2. ____________
3. Line 1 minus line 2 .... 3. ____________
4. Oregon adjusted gross income (Oregon Form 40, line 5) .... 4. ____________
5. Total amount on line 2 .... 5. ____________
6. Line 4 minus line 5 .... 6. ____________
7. 60 percent of line 6 .... 7. ____________
8. Adjusted itemized deductions (line 3 minus line 7) .... 8. ____________

1.e Stock options.

The fair market value of stock at the time you exercise an option minus the option price is a preference item if the stock was received under a qualified or restricted stock option.

1.f,g,h,i Amortization.

You may amortize over a 60-month period the cost of certified pollution control facilities, railroad rolling stock, on-the-job training facilities and child care facilities. Amortization in excess of the amount computed using the normal life of the item is a preference item.

1.j Excess intangible drilling costs.

First compute the intangible drilling costs you would have deducted had the costs been capitalized and straight line recovery of intangibles been used. Add to that amount your net income from oil, gas and geothermal properties. If the sum is less than your allowable intangible drilling and development costs, the difference is a tax preference item.

Form **4972**

Department of the Treasury
Internal Revenue Service

Special 10-Year Averaging Method
(For Total Distribution from Qualified Retirement Plan)

▶ Attach to Form 1040 or Form 1041. ▶ See separate instructions.

OMB No. 1545-0193

1981

Name(s) as shown on return

Identifying number

By checking this box ▶ ☐, I agree, for this and all other lump-sum distributions I receive for the same employee, not to treat any part as capital gain. I know this decision cannot be changed. (See Instruction F.)

Part I Use Part I if You Have Not Filed Form 4972 for Any Year after 1975

1 Capital gain part from payer's statement (Form 1099R, box 2) . . . . . 1 ______

If you are using the 10-year averaging method for the capital gain from the distribution as well as for the ordinary income, leave line 1 blank and include the capital gain on line 2 (see instruction F). Otherwise, enter the capital gain from your payer's statement (Form 1099R, box 2). If you are filing Schedule D and cannot take the exclusion on line 4 below or do not have to decrease the capital gain for Federal estate tax, enter the capital gain on your Schedule D also. See the separate instructions for line 1.

2 Ordinary income part from payer's statement (Form 1099R, box 3). Enter here instead of on Form 1040 or Form 1041 . . . . . 2 ______

3 Add lines 1 and 2 . . . . . 3 ______

4 Death benefit exclusion (see instructions for line 4) . . . . . 4 ______

5 Total taxable amount (subtract line 4 from line 3) . . . . . 5 ______

6 Current actuarial value of annuity, if applicable (from Form 1099R, box 9) . . . . . 6 ______

7 Adjusted total taxable amount (add lines 5 and 6). If this amount is $70,000 or more, skip lines 8 through 11, and enter this amount on line 12 also . . . . . 7 ______

8 50% of line 7, but not more than $10,000 . . . . . 8 ______

9 Subtract $20,000 from line 7. Enter difference. If line 7 is $20,000 or less, enter zero . . . . 9 ______

10 20% of line 9 . . . . . 10 ______

11 Minimum distribution allowance (subtract line 10 from line 8) . . . . . 11 ______

12 Subtract line 11 from line 7 . . . . . 12 ______

13 Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount entered on this line that is attributable to the ordinary income entered on line 2. (See instructions for line 13) . . . . . 13 ______

14 Subtract line 13 from line 12 . . . . . 14 ______

15 $2,300 plus 10% of line 14 . . . . . 15 ______

16 Tax on amount on line 15. Use Tax Rate Schedule X (Single Taxpayer Rate) in Form 1040 Instructions . 16 ______

17 Multiply line 16 by 10. If no entry on line 6, skip lines 18 through 23, and enter this amount on line 24 also . . . . . 17 ______

18 Divide line 6 by line 7 (carry percentage to four places) . . . . . 18 ______ %

19 Multiply line 11 by percentage on line 18 . . . . . 19 ______

20 Subtract line 19 from line 6 . . . . . 20 ______

21 $2,300 plus 10% of line 20 . . . . . 21 ______

22 Tax on amount on line 21. Use Tax Rate Schedule X (Single Taxpayer Rate) in Form 1040 Instructions . 22 ______

23 Multiply line 22 by 10 . . . . . 23 ______

24 Subtract line 23 from line 17 . . . . . 24 ______

25 Divide line 2 by line 3 (carry percentage to four places) . . . . . 25 ______ %

26 Multiply line 24 by percentage on line 25 . . . . . 26 ______

27 Tax rate reduction credit for 1981 (multiply line 26 by .0125) . . . . . 27 ______

28 Tax on ordinary income part of lump-sum distribution (subtract line 27 from line 26). Show this amount on Form 1040, line 36, or Form 1041, line 26b . . . . . 28 ______

For Paperwork Reduction Act Notice, see separate instructions.

Part II Use Part II if You Filed Form 4972 for Any Other Year After 1975 or if You Received an Annuity Contract after 1975

		(a) Total received 1981	(b) Total received after 1975 and before 1981	(c) Total of columns (a) and (b)
1 Capital gain part from payer's statement (Form 1099R, box 2) . . . . *If you are using the 10-year averaging method for the capital gain from the distribution as well as for the ordinary income, leave line 1 blank and include the capital gain on line 2 (see instruction F). Otherwise, enter the capital gain from your payer's statement (Form 1099R, box 2). If you are filing Schedule D and cannot take the exclusion on line 4 below or do not have to decrease the capital gain for Federal estate tax, enter the capital gain on your Schedule D also. See separate instructions for line 1.*	1			
2 Ordinary income part from payer's statement (Form 1099R, box 3). Enter here instead of on Form 1040 or Form 1041	2			
3 Add lines 1 and 2	3			
4 Death benefit exclusion (see instructions for Part I, line 4)	4			
5 Total taxable amount (subtract line 4 from line 3) . . .	5			
6 Current actuarial value of annuity if applicable (from Form 1099R, box 9)	6			

7 Adjusted total taxable amount (add lines 5 and 6, column (c)). If this amount is $70,000 or more, skip lines 8 through 11, and enter this amount on line 12 also 7

8 50% of line 7, but not more than $10,000 8

9 Subtract $20,000 from line 7. Enter difference. If line 7 is $20,000 or less, enter zero 9

10 20% of line 9 10

11 Minimum distribution allowance (subtract line 10 from line 8) 11

12 Subtract line 11 from line 7 12

13 Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount entered on this line that is attributable to the ordinary income entered on line 2. (See instructions for Part I, line 13) 13

14 Subtract line 13 from line 12 14

15 $2,300 plus 10% of line 14 15

16 Tax on amount on line 15. Use Tax Rate Schedule X (Single Taxpayer Rate) in Form 1040 Instructions . 16

17 Multiply line 16 by 10. If no entry on line 6, skip lines 18 through 23, and enter this amount on line 24 also 17

18 Divide line 6, column (c), by line 7 (carry percentage to four places) . . . . 18 %

19 Multiply line 11 by percentage on line 18 19

20 Subtract line 19 from line 6, column (c) 20

21 $2,300 plus 10% of line 20 21

22 Tax on amount on line 21. Use Tax Rate Schedule X (Single Taxpayer Rate) in Form 1040 Instructions . 22

23 Multiply line 22 by 10 23

24 Subtract line 23 from line 17 24

25 Divide line 2, column (c), by line 3, column (c) (carry percentage to four places) . . . . 25 %

26 Tax on ordinary income parts of lump-sum distributions (multiply line 24 by percentage on line 25) . . 26

27 Tax on ordinary income part of lump-sum distribution shown on Form 4972, Part I, line 24 or Part II, line 26 for 1976 through 1980 27

28 Subtract line 27 from line 26 28

29 Tax rate reduction credit for 1981 (multiply line 28 by .0125) 29

30 Tax on ordinary income part of lump-sum distribution (subtract line 29 from line 28). Show this amount on Form 1040, line 36, or Form 1041, line 26b 30

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1981 Department of the Treasury
Internal Revenue Service

Instructions for Form 4972

Special 10-Year Averaging Method

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Instructions

You may find Form 4972 helpful if you got a lump-sum distribution and can use the 10-year averaging method to figure some of your tax at a lower rate. With this method, the ordinary income part of the lump sum is taxed as if you were to get it in equal parts over 10 years.

Form 4972 is for use with Form 1040 (if you are filing an individual return) or Form 1041 (if you are filing for an estate or trust). Form 4972 is used for three purposes:

(1) To choose, by filing the completed form, to use the 10-year averaging method;

(2) To agree, by checking the box at the top of the form, not to treat as capital gain any part of any distribution you receive for the same employee (see Instruction F); and

(3) To figure tax with the 10-year averaging method.

You should use Form 4972 if you or the trust for which you are filing received the whole lump sum, or if only trusts shared it. If the lump sum was shared, but not all the recipients were trusts, **Form 5544, Multiple Recipient Special 10-Year Averaging Method,** should be used instead.

The payer should have given you a Form 1099R or other statement that shows the separate parts of your distribution. The amounts you will use in filling out Form 4972 are capital gain (box 2 of Form 1099R); ordinary income (box 3); and, if it applies the current actuarial value of an annuity (box 9). If you do not have a statement that shows this information, please ask the payer for one that does show it. Also, if applicable, get the Federal estate tax attributable to the taxable part of the lump-sum distribution from the person administering the deceased employee's estate.

If you do not use the 10-year averaging method, report the ordinary income part of the lump sum on Form 1040, line 15, or on Form 1041, line 9. Report the capital gain part less any attributable Federal estate tax on Schedule D or, if applicable, 40% of the result on Form 1040, line 13. Federal estate tax attributable to ordinary income is deductible as an itemized deduction if Form 1040 is filed or as a deduction on line 21 if Form 1041 is filed. Do not file Form 4972 unless you use the 10-year averaging method.

If you need more information, please see **Publication 575, Pension and Annuity Income.** This pamphlet is available from the Internal Revenue Service. For information about figuring tax on capital gains and annuities, see the instructions for your tax return.

If you are filing Form 1040, you may be able to use the general income averaging method, whether or not you use the 10-year averaging method for your lump-sum distribution. For more information, see the instructions for Schedule G (Form 1040) or see **Publication 506, Income Averaging,** which you can get from IRS.

A. Who Can Choose the 10-Year Averaging Method.—During the employee's lifetime, the employee chooses whether the 10-year averaging method will be used. After the employee's death, the recipient chooses.

B. Distributions That Qualify.—For you to use the 10-year averaging method, the lump sum must have been distributed under all the following circumstances.

(1) It came from a qualified pension, profit-sharing, or stock bonus plan.

(2) It came from all the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus) in which the employee had funds.

(3) It was for the full amount credited to the employee.

(4) It was paid within a single tax year.

(5) It was paid in any of the following cases:

a. The employee died.

b. The employee was age 59½ or over at the time of the distribution.

c. The employee, who was a common-law employee, quit, retired, was laid off, or was fired from the job. A common-law employee is anyone who performs services that an employer has the right to control (what will be done and how) and whom the employer has the right to fire.

d. The self-employed individual became disabled as defined in section 72(m)(7) of the Internal Revenue Code.

C. Distributions That Do Not Qualify.—The following distributions do not qualify for the 10-year averaging method:

(1) U.S. Retirement Bonds distributed with the lump sum;

(2) any distribution made before the employee has been a participant in the plan for 5 tax years before the tax year of the distribution, unless it was paid because the employee died;

(3) any capital gain part of the distribution, unless it can be taxed as described in Instruction F;

(4) the current actuarial value of any annuity included in the lump sum (the payer's statement should show this amount, which you should use only to figure tax on the ordinary income part of the distribution);

(5) any distribution to an owner-employee which is subject to penalties under section 72(m)(5)(A) of the Internal Revenue Code; and

(6) a distribution from any other pension plan maintained by an employer if the recipient elected after December 31, 1978, to roll over a total distribution from the employer's money purchase plan into an Individual Retirement Account (IRA) or another qualified plan.

D. How Many Times the 10-Year Averaging Method Can Be Chosen.—This method can be chosen any number of times as long as the employee is under 59½ years old. It can be chosen for only one distribution if the employee is 59½ or over.

E. When to Choose.—You should use the 10-year averaging method for each tax year it applies. To choose this method, file Form 4972 with your original or amended return. Generally, you have 3 years from the due date of your tax return to choose this method.

F. Using the 10-Year Averaging Method for the Capital Gain Part.—If your distribution included both capital gain and ordinary income (the payer's statement shows the amount of each), you may make an election to treat the long-term capital gain part as ordinary income. Then you will be able to use the 10-year averaging method for both parts. This election is separate from the election for the 10-year averaging method. You must make this election by the due date (including extensions) for filing the return. Once you make this election you may not change it, even if you later change your election of the 10-year averging method.

The election to treat capital gain as ordinary income applies to all qualifying distributions you receive for a particular employee, but does not apply if you receive a distribution for someone else. You cannot use the 10-year averaging method for the capital gain part of a lump sum if you received another distribution for the same employee in an earlier year and any part of that distribution was taxed as a capital gain.

Using the 10-year averaging method for the capital gain part of your lump sum may not be to your advantage. Unless using it for both parts of the distribution does help you, or unless you used it for another distribution you received for the same employee, you should use it for the ordinary income part only. You would then figure tax on the capital gain part in the regular way. To see whether using the 10-year averaging method is better for you, figure the tax both ways and compare the results. When you figure, be sure to allow for the alternative minimum tax if it applies. The alternative minimum tax would be reported on Form 6251.

If you use the 10-year averaging method to figure the tax on the capital gain part of the lump sum as well as on the ordinary income part, check the box under your name at the top of Form 4972. Leave line 1 blank on the form, add the capital gain and ordinary income parts of the lump sum, and report the combined amount on line 2 of Form 4972. Do not include the capital gain part on Schedule D of the return you file.

Line-by-Line Instructions

In General

If you received more than one distribution, add them and figure the tax on the total amount.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the whole lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

Part I

Use Part I if (1) 1981 is the first year after 1975 for which you are using the 10-year averaging method and (2) you have not received an annuity contract after 1975.

Line 1.—If you have no capital gain from the lump sum, or if you are using the 10-year averaging method to figure tax on the capital gain part (see Instruction F), skip to line 2.

Otherwise, enter on line 1 the capital gain from the payer's statement (Form 1099R, box 2) you received. The capital gain entered on line 1 is used only to figure the tax on the ordinary income part on a lump sum distribution. You are not taxed twice on this capital gain. If none of the following paragraphs in this line instruction apply to you, also enter this amount on Schedule D (Form 1040), Part II, line 8, column g, if you are filing Form 1040, or Schedule D (Form 1041), Part II, line 6a, column f, if you are filing Form 1041. Identify it as "capital gain from lump-sum distribution."

If you are filing Form 1040 and do not need Schedule D to report other capital gains or losses or figure the alternative tax, enter 40% of your capital gain on Form 1040, line 13. To find the amount of capital gain to report if you can take the death benefit exclusion on Form 4972, line 4, see the next paragraph.

If you can take the death benefit exclusion on line 4, you will use less than the whole capital gain to figure the entry for Form 1040, line 13, or for Schedule D. To figure the part of the capital gain to use, follow these steps, using amounts from Form 4972: divide line 1 by line 3, and multiply the result by line 5. If you are filing Schedule D for Form 1040, enter the result on Part II, line 8, column g, and identify it as "capital gain from lump-sum distribution less exclusion." If you are not filing Schedule D, see the instructions for Form 1040, line 13. If you are filing Schedule D for Form 1041, enter the result on Part II, line 6a, column f, and identify it as "capital gain from lump-sum distribution less exclusion."

If you have an entry on line 13, you have to decrease the capital gain by the amount of Federal estate tax attributable to it. To figure this amount, subtract the percentage entered on line 25 from 100%. The result is the percentage of the distribution applicable to the capital gain. Multiply the amount of tax entered on line 13 by this percentage. The result is the Federal estate tax attributable to the capital gain. If you do not need to file Schedule D, subtract the tax from the capital gain and enter 40% of the result on Form 1040, line 13. If you are filing Schedule D, subtract the Federal estate tax as figured from the amount you would have entered in the gain column of the appropriate Schedule D. Identify as "capital gain from lump sum less Federal estate tax."

Line 2.—Enter the ordinary income part of your lump-sum distribution as it is shown on your payer's statement (Form 1099R, box 3). If you are using the 10-year averaging method for the capital gain part as well as the ordinary income part, you should have checked the box at the top of Form 4972 and skipped line 1; add boxes 2 and 3 from your payer's statement, and enter the total on line 2. Community property laws do not apply to figuring tax on the amount you report on line 2. Do not report on Form 1040 or 1041 any amount you report on line 2.

Line 4.—If you received the distribution because of the employee's death, you can exclude up to $5,000 of the lump sum from your gross income. If the trust for which you are filing shared the lump sum with other trusts, it will share the exclusion in the same proportion as it shared the distribution. This exclusion applies to the beneficiaries or estates of common law employees only. **Publication 575** gives more information about the death benefit exclusion.

Line 13.—A beneficiary who receives a lump-sum distribution because of an employee's death that occurs after April 1, 1980, and who chooses to be taxed under the special 10-year averaging method must reduce the taxable part of the distribution by any Federal estate tax on the part included in the estate.

The reduction is made by entering the Federal estate tax attributable to the lump-sum distribution on line 13.

Do not deduct on Form 1040 or Form 1041 the amount entered on this line that is attributable to the ordinary income entered on line 2.

Lines 16 and 22.—To find the amounts to enter on lines 16 and 22, use Tax Rate Schedule X (Single Taxpayer Rate). It is printed in the instructions for Form 1040. Use Tax Rate Schedule X for this purpose no matter what method you use to figure the tax on your other income, and no matter whether you are filing Form 1041.

Lines 18 and 25.—Carry percentages to four places. For example, if you divide $10,000 by $30,000, the percentage would be 33.33 percent.

Part II

Use Part II if there was any other year after 1975 for which you used the 10-year averaging method for lump-sum distributions or during which you received an annuity contract.

To figure your 1981 tax with the 10-year averaging method, add these earlier distributions and annuity values to any that you received in 1981. Figure the tax on the total, and then subtract the tax you paid on the distributions in earlier years. The tax you subtract should have been figured and reported on Form 4972 for those years.

Use the line-by-line instructions for Part I to help you fill in Part II. The line numbering is the same.

Example I.—Using Form 4972 to Figure Tax on a Lump-sum Distribution with No Annuity.

In 1981, Mr. Smith retired from the X Corporation. He received a taxable $60,000 lump-sum distribution from its qualified plan. His Form 1099R from the payer of the plan shows $12,000 as ordinary income and $48,000 as capital gain.

Total taxable amount ($12,000 plus $48,000)		$60,000
Subtract minimum distribution allowance:		
Smaller of $10,000 or ½ of $60,000	$10,000	
Reduction ($60,000 less $20,000 multiplied by 20%)	8,000	2,000
Total taxable amount less minimum distribution allowance		$58,000
$2,300 plus 10% of $58,000		$ 8,100
Tax on $8,100 from Tax Rate Schedule X		$ 996
Tax on $8,100 multiplied by 10 ($996 multiplied by 10)		$ 9,960
Percentage of ordinary income to total taxable amount ($12,000 divided by $60,000)		20%
Tax on ordinary income part of lump-sum distribution before tax rate reduction credit for 1981 ($9,960 multiplied by 20%)		$ 1,992
Tax rate reduction credit for 1981 ($1,992 multiplied by .0125)		$ 24.90
Tax on ordinary income part of lump-sum distribution for 1981 ($1,992 less $24.90)		$1,967.10

If Mr. Smith uses the 10-year averaging method for the capital gain part also, he would report $60,000 on Form 4972, line 2, and his tax on it before the tax rate reduction credit would be $9,960 ($9,960 multiplied by 100%). He would not report the capital gain of $48,000 on Schedule D (Form 1040).

Example II.—Using Form 4972 to Figure Tax on a Lump-sum Distribution with an Annuity.

In 1981, Ms. Brown retired from the Y Corporation. She received a taxable $60,000 lump-sum distribution from its qualified plan. Her Form 1099R from the payer of the plan shows $12,000 as ordinary income, $18,000 as capital gain, and $30,000 as the current actuarial value of an annuity.

Total taxable amount ($12,000 plus $18,000)		$30,000
Add current actuarial value of annuity		30,000
Adjusted total taxable amount		$60,000
Subtract minimum distribution allowance:		
Smaller of $10,000 or ½ of $60,000	$10,000	
Reduction ($60,000 less $20,000 multiplied by 20%)	8,000	2,000
Adjusted total taxable amount less minimum distribution allowance		$58,000
$2,300 plus 10% of $58,000		$ 8,100
Tax on $8,100 from Tax Rate Schedule X		$ 996
Tax on $8,100 multiplied by 10 ($996 multiplied by 10)		$ 9,960
Percentage of current actuarial value of annuity to adjusted total taxable amount ($30,000 divided by $60,000)		50%
Minimum distribution allowance applicable to current actuarial value of annuity ($2,000 multiplied by 50%)		$ 1,000
Current actuarial value of annuity less minimum distribution allowance applicable to value of annuity ($30,000 less $1,000)		$29,000
$2,300 plus 10% of $29,000		$ 5,200
Tax on $5,200 from Tax Rate Schedule X		$ 458
Tax attributable to annuity ($458 multiplied by 10)		$ 4,580
Tax on adjusted total taxable amount less tax applicable to annuity ($9,960 less $4,580)		$ 5,380
Percentage of ordinary income part to total taxable amount ($12,000 divided by $30,000)		40%
Tax on ordinary income part of lump sum distribution before tax rate reduction credit for 1981 ($5,380 multiplied by 40%)		$ 2,152
Tax rate reduction credit for 1981 ($2,152 multiplied by .0125)		$ 26.90
Tax on ordinary income part of lump sum distribution for 1981 ($2,152 less $26.90)		$2,125.10

If Ms. Brown uses the 10-year averaging method for the capital gain part also, she would report $30,000 on Form 4972, line 2, and her tax on it before the tax rate reduction credit would be $5,380 ($5,380 multiplied by 100%). She would not report the capital gain of $18,000 on Schedule D (Form 1040).

Form **4137**
Department of the Treasury
Internal Revenue Service

Computation of Social Security Tax on Unreported Tip Income

(Under Federal Insurance Contributions Act)
▶ Attach to Form 1040.

OMB No. 1545-0059

1981

Name of person who received tip income. Enter name as shown on social security card.

Social security number

Names of employers. (If you need more space, use the back of this form.)

1 Total cash and charge tips received in 1981 (Note: *Include December 1980 tips reported to your employer from January 1, 1981, through January 10, 1981. Do not include December 1981 tips reported to your employer from January 1, 1982, through January 10, 1982*). See instruction D . . . . .

2 Total cash and charge tips reported to your employer in 1981 . . . .

3 Balance (subtract line 2 from line 1). Enter here and include in total on Form 1040, line 7 . . . .

4 Cash and charge tips you received but did not report to your employer because the total was less than $20 in a calendar month . . . .

5 Balance (subtract line 4 from line 3). Enter here and on line 1 of Schedule U below . . . .

6 Largest amount of wages (including tips) subject to social security tax . . . 29,700 | 00

7 Total FICA Wages shown on Form W-2 or on Railroad Retirement Compensation statement. Enter here and on line 2 of Schedule U below. (Include covered wages you received as an agricultural or household employee) . . . .

8 Balance (subtract line 7 from line 6). If line 7 is more than line 6, you do not owe this tax. Do not complete the rest of this form or Schedule U below . . . .

9 Unreported tips subject to FICA tax. Enter here and on line 3 of Schedule U below the amount from line 5 or line 8, whichever is smaller . . . .

10 Multiply line 9 by .0665. Enter here and on Form 1040, line 51a . . . .

For Paperwork Reduction Act Notice, see instructions on back.

Form **4137** (1981)

Do Not Detach

SCHEDULE U
(Form 1040)
Department of the Treasury
Internal Revenue Service

U.S. Schedule of Unreported Tip Income

For crediting to your social security record

1981

Important: The amounts reported below are for your social security record. This record is used in figuring any benefits, based on your earnings, payable to you, your dependents, and your survivors. Fill in each item accurately and completely.

Print or type name of person who received tip income. Enter name as shown on social security card.

Social security number

Address (number and street)

Occupation

City or town, State and ZIP code

1 Taxable tip income not reported to employer. Enter amount from line 5 above . . . . $

2 Total FICA wages. Enter amount from line 7 above . . . . $

3 Unreported tips subject to FICA tax. Enter amount from line 9 above . . . . $

Please do not write in this space

DLN–

Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A. Who Must File.—If you received tips of $20 or more in any month and did not report all of those tips to your employer, you must file this form. The form will help you figure the amount of tip income to be reported on your tax return and social security record.

B. Tips You Must Report to an Employer.—You must give your employer a written statement of cash and charge tips if you receive $20 or more in tips during a month. If in any month you work for two or more employers and receive tips while working for each, the $20 test applies separately for the tips you received for your work for each employer and not to the total you receive. You must report these tips to employers by the 10th day of the month after the month you receive them.

C. Certain Tips You Do Not Report on This Form.—Do not report on this form tips received:

- for work covered by the Railroad Retirement Tax Act. (Contact any Railroad Retirement Board office for information on how to get railroad retirement credit for tips not reported to railroad employers.) or
- while working for State or local governments, or
- while working for certain nonprofit organizations not subject to FICA tax.

D. When Tips Are Taxable.—If you report tips to your employer as required by the 10th day of the month after the month you receive them, those tips are considered income to you in the month you report them. For example, tips you receive in December of 1981 that you report to your employer between January 1, 1982 and January 10, 1982, are considered income in 1982 and should be included on your 1982 Form W–2. (Do not include these tips in line 1 of this form.)

Tips you did not report to your employer on time or did not report at all are considered income to you in the month you actually received them. For example, tips you received in December of 1981 that are reported to your employer after January 10, 1982, are considered income in 1981 because you did not report to your employer on time. (Include these tips in line 1 of this form.)

E. Payment of Tax.—Tips you report to your employer are subject to social security or railroad retirement tax and income tax withholding. Your employer collects these taxes from wages (excluding tips) or other funds of yours available to cover them. If your wages are not enough to cover these taxes, you may give your employer the additional amounts needed. Your Form W–2 will include the tips you reported to your employer and the taxes withheld. If there was not enough money to cover the FICA (social security) or railroad retirement tax, your Form W–2 will also show the tax due.

F. Penalty for Not Reporting Tips.—If you do not report tips received to your employer, you may be charged a penalty equal to 50% of the FICA tax due on those tips. Therefore, you should attach a statement to your return explaining why you did not report them.

For further information, please see **Publication 531,** Reporting Income From Tips, and **Publication 505,** Tax Withholding and Estimated Tax, available from most Internal Revenue Service offices.

☆ U.S. GOVERNMENT PRINTING OFFICE: 1981-343-165 (31-0598032)

Form Approved
OMB No. 48-RO-546

Department of the Treasury
Form 90-22.1 (9-78)
SUPERSEDES ALL PREVIOUS EDITIONS

REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS

For the calendar year 19 . . . .

OFFICIAL USE ONLY

This form should be used to report financial interest in or signature authority or other authority over one or more bank accounts, securities accounts, or other financial accounts in foreign countries as required by Department of the Treasury Regulations (31 CFR 103). You are not required to file a report if the aggregate value of the accounts did not exceed $1,000. Check all appropriate boxes. SEE INSTRUCTIONS ON BACK FOR DEFINITIONS.

1. Name (Last, First, Middle)	2. Social security number or employer identification number if other than individual	3. Name in item 1 refers to ☐ Individual ☐ Partnership ☐ Corporation ☐ Fiduciary
4. Address (Street, City, State, Country, ZIP)		

5. ☐ I had signature authority or other authority over one or more foreign accounts, but I had no "financial interest" in such accounts (see instruction J). Indicate for these accounts:

(a) Name and social security number or taxpayer identification number of each owner ....

(b) Address of each owner ....

(Do not complete item 9 for these accounts)

6. ☐ I had a "financial interest" in one or more foreign accounts owned by a domestic corporation, partnership or trust which is required to file Form 90-22.1. (See instruction L). Indicate for these accounts:

(a) Name and taxpayer identification number of each such corporation, partnership or trust ....

(b) Address of each such corporation, partnership or trust ....

(Do not complete item 9 for these accounts)

7. ☐ I had a "financial interest" in one or more foreign accounts, but the total maximum value of these accounts (see instruction I) did not exceed $10,000 at any time during the year. (If you checked this box, do not complete item 9).

8. ☐ I had a "financial interest" in 25 or more foreign accounts. (If you checked this box, do not complete item 9.)

9. If you had a "financial interest" in one or more but fewer than 25 foreign accounts which are required to be reported, and the total maximum value of the accounts exceeded $10,000 during the year (see instruction I), write the total number of those accounts here. ☐
Complete items (a) through (f) below for one of the accounts and attach a separate Form 90-22.1 for each of the others.
Items 1, 2, 3, 9, and 10 must be completed for each account. Check here if this is an attachment. ☐

(a) Name in which account is maintained	(b) Name of bank or other person with whom account is maintained
(c) Number and other account designation, if any	(d) Address of office or branch where account is maintained

(e) Type of account. (If not certain of English name for the type of account, give the foreign language name and describe the nature of the account. Attach additional sheets if necessary.)
☐ Bank Account ☐ Securities Account ☐ Other (specify) ....

(f) Maximum value of account (see instruction I)
☐ Under $10,000 ☐ $10,000 to $50,000 ☐ $50,000 to $100,000 ☐ Over $100,000

10. Signature	11. Title (Not necessary if reporting personal account)	12. Date

PRIVACY ACT NOTIFICATION

Pursuant to the requirements of Public Law 93-579, (Privacy Act of 1974), notice is hereby given that the authority to collect information on Form
90-22.1 in accordance with 5 U.S.C. 552(e)(3) is Public Law 91-508; 31 U.S.C. 1121; 5 U.S.C. 301, 31 CFR Part 103.
The principal purpose for collecting the information is to assure maintenance of reports or records where such reports or records have a high degree
of usefulness in criminal, tax, or regulatory investigations or proceedings. The information collected may be provided to those officers and employees
of any constituent unit of the Department of the Treasury who have a need for the records in the performance of their duties. The records may be
referred to any other department or agency of the Federal Government upon the request of the head of such department or agency for use in a
criminal, tax, or regulatory investigation or proceeding.
Disclosure of this information is mandatory. Civil and criminal penalties, including under certain circumstances a fine of not more than $500,000 and
imprisonment of not more than five years, are provided for failure to file a report, supply information, and for filing a false or fraudulent report.
Disclosure of the social security number is mandatory. The authority to collect this number is 31 CFR 103. The social security number will be used
as a means to identify the individual who files the report.

INSTRUCTIONS

A. Who Must File a Report—Each United States person who has a financial interest in or signature authority or other authority over bank, securities, or other financial accounts in a foreign country, which exceeded $1,000 in aggregate value at any time during the calendar year, must report that relationship each calendar year by filing Form 90-22.1 with the Department of the Treasury on or before June 30, of the succeeding year.

An officer or employee of a commercial bank which is subject to the supervision of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation need not report that he has signature or other authority over a foreign bank, securities or other financial account maintained by the bank unless he has a personal financial interest in the account.

In addition, an officer or employee of a domestic corporation whose securities are listed upon national securities exchanges or which has assets exceeding $1 million and 500 or more shareholders of record need not file such a report concerning his signature authority over a foreign financial account of the corporation, if he has no personal financial interest in the account and has been advised in writing by the chief financial officer of the corporation that the corporation has filed a current report which includes that account.

B. United States Person—The term "United States person" means (1) a citizen or resident of the United States, (2) a domestic partnership, (3) a domestic corporation, or (4) a domestic estate or trust.

C. When and where to File—This report shall be filed on or before June 30 each calendar year with the Department of the Treasury, Post Office Box 28309, Central Station, Washington, D.C., 20005.

D. Account in a Foreign Country—A "foreign country" includes all geographical areas located outside the United States, Guam, Puerto Rico, and the Virgin Islands.

Report any account maintained with a bank (except a military banking facility as defined in instruction E) or broker or dealer in securities that is located in a foreign country, even if it is a part of a United States bank or other institution. Do not report any account maintained with a branch, agency, or other office of a foreign bank of other institution that is located in the United States, Guam, Puerto Rico, and the Virgin Islands.

E. Military Banking Facility—Do not consider as an account in a foreign country, an account in an institution known as a "United States military banking facility" (or "United States military finance facility") operated by a United States financial institution designated by the United States Government to serve U.S. Government installations abroad, even if the United States military banking facility is located in a foreign country.

F. Bank, Financial Account—The term "bank account" means a savings, demand, checking, deposit, loan or any other account maintained with a financial institution or other person engaged in the business of banking. It includes certificates of deposit.

The term "securities account" means an account maintained with a financial institution or other person who buys, sells, holds, or trades stock or other securities for the benefit of another.

The term "other financial account" means any other account maintained with a financial institution or other person who accepts deposits, exchanges or transmits funds, or acts as a broker or dealer for future transactions in any commodity on (or subject to the rules of) a commodity exchange or association.

G. Financial Interest—A financial interest in a bank, securities, or other financial account in a foreign country means an interest described in either of the following two paragraphs:

(1) A United States person has a financial interest in each account for which such person is the owner of records or has legal title, whether the account is maintained for his or her own benefit or for the benefit of others including non-United States persons. If an account is maintained in the name of two persons jointly, or if several persons each own a partial interest in an account, each of those United States persons has a financial interest in that account.

(2) A United States person has a financial interest in each bank, securities, or other financial account in a foreign country for which the owner of record or holder of legal title is: (a) a person acting as an agent, nominee, attorney, or in some other capacity on behalf of the U.S. person; (b) a corporation in which the United States person owns directly or indirectly more than 50 percent of the total value of shares of stock; (c) a partnership in which the United States person owns an interest in more than 50 percent of the profits (distributive share of income); or (d) a trust in which the United States person either has a present beneficial interest in more than 50 percent of the assets or from which such person receives more than 50 percent of the current income.

H. Signature or Other Authority Over an Account—

Signature Authority—A person has signature authority over an account if such person can control the disposition of money or other property in it by delivery of a document containing his or her signature (or his or her signature and that of one or more other persons) to the bank or other person with whom the account is maintained.

Other authority exists in a person who can exercise comparable power over an account by direct communication to the bank or other person with whom the account is maintained, either orally or by some other means.

I. Account Valuation—For items 7, 9, and Instruction A, the maximum value of an account is the largest amount of currency and non-monetary assets that appear on any quarterly or more frequent account statement issued for the applicable year. If periodic account statements are not so issued, the maximum account asset value is the largest amount of currency and non-monetary assets in the account at any time during the year. Convert foreign currency by using the official exchange rate at the end of the year. In valuing currency of a country that uses multiple exchange rates, use the rate which would apply if the currency in the account were converted into United States dollars at the close of the calendar year.

The value of stock, other securities or other non-monetary assets in an account reported on Form 90-22.1 is the fair market value at the end of the calendar year, or if withdrawn from the account, at the time of the withdrawal.

For purposes of items 7, 9, and Instruction A, if you had a financial interest in more than one account, each account is to be valued separately in accordance with the foregoing two paragraphs.

If you had a financial interest in one or more but fewer than 25 accounts, and you are unable to determine whether the maximum value of these accounts exceeded $10,000 at any time during the year, check item 9 (do not check item 7) and complete Item 9 for each of these accounts.

J. United States Persons with Authority Over but No Interest in an Account—Except as provided in Instruction A and the following paragraph, you must state the name, address, and identifying number of each owner of an account over which you had authority, but if you check item 5 for more than one account of the same owner, you need identify the owner only once.

If you check item 5 for one or more accounts in which no United States person had a financial interest, you may state on the first line of this item, in lieu of supplying information about the owner, "No U.S. person had any financial interest in the foreign accounts." This statement must be based upon the actual belief of the person filing this form after he or she has taken reasonable measures to endure its correctness.

If you check item 5 for accounts owned by a domestic corporation and its domestic and/or foreign subsidiaries, you may treat them as one owner and write in the space provided, the name of the parent corporation, followed by "and related entities," and the identifying number and address of the parent corporation.

K. Consolidated Reporting—

A corporation which owns directly or indirectly more than 50 percent interest in one or more other entities will be permitted to file a consolidated report on Form 90-22.1, on behalf of itself and such other entities provided that a listing of them is made part of the consolidated report. Such reports should be signed by an authorized official of the parent corporation.

If the group of entities covered by a consolidated report has a financial interest in 25 or more foreign financial accounts, the reporting corporation need only note that fact on the form; it will, however, be required to provide detailed information concerning each account when so requested by the Secretary or his delegate.

L. Avoiding Duplicate Reporting—If you had financial interest (as defined in instruction G(2)(b), (c) or (d) in one or more accounts which are owned by a domestic corporation, partnership or trust which is required to file Form 90-22.1 with respect to these accounts in lieu of completing item 9 for each account you may check item 6 and provide the required information.

M. Providing Additional Information—Any person who does not complete item 9, shall when requested by the Department of the Treasury provide the information called for in item 9.

N. Signature (Item 10)—*This report must be signed* by the person named in Item 1. If the report is being filed on behalf of a partnership, corporation, or fiduciary, it must be signed by an authorized individual.

O. Penalties—For criminal penalties for failure to file a report, supply information, and for filing a false or fraudulent report see 31 U.S.C. 1058, 31 U.S.C. 1059, and 18 U.S.C. 1001.

Form **1310**
(Rev. August 1981)
Department of the Treasury
Internal Revenue Service

Statement of Person Claiming Refund Due a Deceased Taxpayer

OMB No. 1545-0073
Expires 8-31-84

Tax year decedent was due a refund:
Calendar year , or other tax year beginning , 19 , and ending , 19 .

Please type or print

Name of decedent	Date of death	Social security number of decedent

Name of person claiming refund

Address (number and street)

City or town, State and ZIP code

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

I am filing this statement as (check only one box):

A ☐ Surviving spouse, claiming a refund based on a joint return. (See Death of Taxpayer in Instructions for Form 1040.)

B ☐ Decedent's personal representative.[1] Attach a court certificate showing your appointment.

C ☐ Person, other than A or B, claiming refund for the decedent's estate. Complete Schedule A and attach a copy of the death certificate or proof of death.[2]

Please attach requested information and sign below. If you checked box C, also complete Schedule A.

Schedule A (To be completed only if you checked box C above.)

	Yes	No
1 Did the decedent leave a will?		
2 a Has a personal representative been appointed for the estate of the decedent?		
b If "No," will one be appointed?		
If 2 a or b is answered "Yes," do not file this form. The personal representative should file for the refund.		
3 As the person claiming the refund for the decedent's estate, will you pay out the refund according to the laws of the State where the decedent was a legal resident?		

If "No," a refund cannot be made until you submit a court certificate showing your appointment as personal representative or other evidence that you are entitled, under State law, to receive the refund.

Signature and Verification

I request a refund of taxes overpaid by or on behalf of the decedent. Under penalties of perjury, I declare that I have examined this claim and to the best of my knowledge and belief, it is true, correct and complete.

Signature of person claiming refund ▶ Date ▶

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[1] For purposes of this form, personal representative means the executor, executrix, administrator or administratrix of the decedent's estate; if no executor, executrix, administrator or administratrix is appointed, qualified and acting within the United States, personal representative means any person in actual or constructive possession of any property of the decedent.

[2] May be the original or an authentic copy of a telegram or letter from the Department of Defense notifying the next of kin of the decedent's death while in active service, or a death certificate issued by the Department of Defense.

Oregon Department
of Revenue
Salem, Oregon 97310

Statement of Claimant to Refund Due—Deceased Taxpayer

For calendar year ________, or other taxable year beginning
________________, 19____, and ending ________________, 19____

Please type or print

Name of decedent	Name of claimant
Date of death / Social security number†	Number and street
No. and street (Permanent residence or domicile on the date of death)	
City or town, State, and ZIP code / County	City or town, State, and ZIP code / County

1. Did the deceased leave a will? ☐ Yes ☐ No
2. (a) Has a Personal Representative been appointed by the court for the estate? ☐ Yes ☐ No
   (b) If "No," will one be appointed? ☐ Yes ☐ No

NOTE: If 2(a) or (b) is checked "Yes," the Personal Representative should claim the refund.

3. I am filing this statement as (check only one box).
   (a) ☐ Surviving wife or husband, claiming a refund based on (1) a joint income tax return, (2) a claim for Homeowner and Renter Property Tax Refund or, (3) a claim for Elderly Rental Assistance.
   (b) ☐ Personal Representative of Estate (attach a copy of the court appointment)
   (c) ☐ Claimant other than above. Complete Schedule A.

Schedule A. (To be completed only if 3(c) above is checked.)

I (we) promise to use all the money to pay the expenses of last illness and of the funeral of the decedent if necessary. If, after payment of the check by the State Treasurer, the decedent's estate is probated, I (we) promise to account fully to the Personal Representative of the estate.

I (we) qualify for the payment as: (Oregon Revised Statutes 293.490 and 293.495)
(check one)

( ) surviving spouse

( ) children of the decedent, or children of a deceased child of the decedent

( ) parents

( ) brothers and sisters

( ) nephews and nieces

There are no survivors in the group that include the claimant's except those who signed below,* and there are no survivors in any of the groups preceding the claimant's.

Signature and Verification

I (we) declare under the penalties of false swearing that the above statements are true. I (we) understand that the Oregon Department of Revenue will issue the check to the claimant named above.

Dated this __________ day of ______________________, 19____.

______________________________ ______________________________

______________________________ ______________________________

†The social security number is required for identification purposes. Oregon Administrative Rule 150-305.100.

*If Schedule A is completed, all persons in the group of eligible claimants must sign.

(243)
150-101-032 (11-78)

PROBLEMS FOR STUDENTS TO WORK IN CLASS
OR AS
HOMEWORK

Session 17: Other Taxes and Payments, Miscellaneous

Is a declaration of estimated tax return due for the following taxpayer?

1. Bill Brown, single, $17,200 in wages subject to witholding, and interest income of $875.

2. George Smith, married and filing a joint return, has wages subject to withholding of $13,400. His wife has wages of $6,300 subject to withholding.

3. Jim Johnson is self-employed. He will owe no income tax for this year but his self-employment tax will be $195.

4. John Bingle's only income is from a salary of $24,000 for the year. His total tax will be $6,185 and the tax withheld will be $6,205.

5. Allan and Beverly Ryder will file a joint return for the year. He is self-employed and will earn approximately $13,750 for the year. Beverly will earn $5,300 as an employee. Their tax for the year will be $3,800 and $600 self-employment tax for Allan. Bev's withholding will be $4,500.

6. Bob Bennett, single, will have net profit from a house rental of $560 and salary of $11,250. His tax for the year will be $1,922 and his withholding will be $1,872.

7. A taxpayer (T/P) comes to your office during the summertime. T/P has started a new business in May and feels it is just about breaking even. T/P worked for a salary until May 31 and income tax was, of course, withheld from the salary. On T/P's return for the previous year the tax liability for the year was $1,400. T/P is preparing for a large contract in September and wants to know on how much tax to base the estimate so that penalties will be avoided.

   What tax figure can we give T/P that will protect T/P from any penalties?

8. Gene and Nancy Carroll filed and paid a joint estimate in the amount of $3,000. If they file separate returns, and cannot agree on the division of their estimated payment, what division will IRS make if Gene's tax is $4,000 and Nancy's $2,000.

9. Sidney Jarrell showed a tax of $2,000 on his 1980 return. In 1981 he had approximately the same income as he had in 1980, but his tax was $2,700. His two eldest daughters married in 1981 and filed joint returns with their spouses.

Sidney had $10,000 wages in 1981 and $1,600 income tax withheld on those wages. He made estimate tax payments of $50, $230, and $100 on the first three installment dates. He did not make a final estimated payment.

Sidney's income was evenly distributed through the months of the year. He filed his return on 1/28/82 and paid the balance of tax due.
Complete a Form 2210 for Sidney and compute penalties, if any. (Do not concern yourself with Exception 4).

10. What preference items are included in computation of the alternative minimum tax? Under what circumstances is the alternative minimum tax applicable?

11. This year's tax liablility is $1,000. Last year's tax was $600. No income tax was wihheld. $100 was paid each estimate period. Complete Form 2210.

12. Taxpayer is self-employed, married, 2 children. Schedule C income is $8,000. Tax was $116 plus $632 self-employment tax, less $100 investment credit; equals $648. Last year's tax was $600. Taxpayer paid $100 each estimate date. Compute Exception 4 for each period.

13. Taxpayer has a total of $2,000 interest income for the year. $1,000 is earned on a loan to a private party, and $1,000 is earned on bank deposits. (Iterest is paid quarterly by the bank). Using the actual method, show the amount of interest income which would be included in income each period under Exception 4.

14. Determine if the following persons are required to file an estimated tax declaration. Give the reasons for your conclusions.

    a. A single man with $17,500 in salary and $1,200 in savings interest.
    b. Mr. Rose, married and entitled to file a joint return, with gross income of $21,000. Mrs. Rose had no gross income.
    c. A single man with a $12,000 salary.
    d. Mr. Maple, self-employed, has estimated gross income of $20,001 for the year. He has no taxable income, but is liable for $500 self-employment tax.

15. In January of this year, Art and Gail Beard expect their total income to be $24,000, made up principally of wages earned by both of them. They expect to owe $400 tax after applying their $2,600 withholding against their $3,000 tax liability.

   a. Are they required to file a declaration of estimated tax?
   b. If they are required to file, give:
      1. The amount of each installment,
      2. The date the declaration should be filed,
      3. The payment dates.

16. Assume Art and Gail in Question 15 did not file the declaration of estimated tax and that their estimate of tax and withholding was accurate. Figure the penalty for the "underpayment".

17. Bill and Kathy Brown file a joint 1981 return, on which they claim an exemption for their daughter, Diane. They meet all the requirements for claiming the earned income credit. In 1981, Bill received $6,000 in wages and Kathy received $100 in interest income from a savings account. Figure their 1981 earned income credit on the worksheet using the Earned Income Tax Credit Table.

    Would Bill qualify for the credit if he filed a separate return?

18. Barry Beard is employed as a waiter at the Tune Topper Lounge. He receives a substantial amount of tips from regular customers. He usually reports some tips to his employer, but rarely reports all the tips he receives. During 1981, he reported some tips every month, but by the end of the year he had received $875 in tips that he did not report. He earned $13,000.

   a. How much social security tax on unreported tips should Barry report on his Form 1040? How does he report it?

   b. Is he required to report the $875 as income?

SESSION 18

EXAMINATION OF RETURNS AND APPEAL RIGHTS
COURSE REVIEW, INTERVIEW TECHNIQUES

Reading Assignment: Publication 17, Ch. 6 & 37
Publication 225, Ch. 19-20
Interview Techniques

PROBLEMS FOR STUDENTS TO WORK IN CLASS OR AS HOMEWORK

SESSION 18: Examination of Returns, and Appeal Rights

1. An examination of a tax return results either in the return being accepted as filed or in the assessment of additional tax. True or False?

2. The Internal Revenue Service is obligated by law to collect every dollar of tax it possibly can from each taxpayer. True or False?

3. Explain the purpose of Form 2848-D.

4. When the examination is completed, the taxpayer must sign a waiver before any further appeal action can be taken. True or False?

5. The real purpose of every examination is to look for fraud. True or False?

6. After an examination, if the taxpayer agrees to an increase in tax, what should the taxpayer do?

7. What is the purpose of the 30-day letter?

8. If taxpayer's appeal is denied at the Appeals Office, what must the taxpayer do?

9. What is the time limitation for filing a claim for refund?

INTERVIEW CHECKLIST - METHOD 1

COURTESY! SMILE, always greet the client when they first enter the office!! Say "Good Morning" (afternoon or evening). "May I help you?" If busy. . . "I will be with you shortly." "Please have a seat and a cup of coffee."

HEADING: Check spelling of name, address, SS#'s. Double check SS#'s, filing status, and personal exemption. . .over 65, blind?

What are the names of children who live with you? Did they receive any child support or any other benefit? Do you help support anyone else?

INCOME: Add W-2 income. Check for EXCESS FICA. **Check other** compensation. Is it included in W-2 gross income? Do you have any other interest income or dividend income? How about rental, royalties or pension income? Any business or farming income? Did you sell your home or other property? Did you receive **any other income**, such as; bonuses, babysitting, jury duty, hobby or contract labor? If yes, and net is over $400, or more. . .check on self-employment tax.

ADJUSTMENTS:

1. Did you move last year? If yes, determine adjustment if qualified.
2. Did you use your car in your work besides going to and from work?
3. Did you have a part-time job? (Auto expenses traveling between jobs:)(20 cents/mile).
4. Were you sent out of town on a temporary job?
5. Do you have an IRA or Keogh account?
6. Did you pay alimony?
7. Do you receive disability income?

DEDUCTIONS: Check to see if client should itemize.

Are you buying a home? Did you have large interest payments? How about medical expenses? (3% AGI test). Was any of your personal property damaged or stolen during the year? What was the amount of your contribution to churches or charities? Check for child care credit.

IF CLIENT CAN ITEMIZE, CONTROL THE INTERVIEW BY ASKING ABOUT EACH ITEM ON SCHEDULE A. Upon completion of Schedule A, "Is there anything you had a question about?"

NET TAXABLE INCOME: HAS YOUR INCOME INCREASED SIGNIFICANTLY IN THE LAST FIVE YEARS? If yes, consider Schedule G. (Many tax offices require copies of the previous four year's tax returns so that this information can become a permanent part of the client file.)

CREDITS

1. **CHECK** for retirement income credit, especially if over 65, or if client is receiving any retirement pay, ALWAYS determine what amount of SOCIAL SECURITY client is recieving. Show total amount of social security received. (net, plus medicare deduction)
2. Did you pay any babysitting?
3. Did you weatherize your home?
4. Did you make any political contributions?

ENDING: Always ask; "ARE THERE ANY QUESTIONS ABOUT THE RETURN?

Then add up charges and say: "Our fee is $_______." To be mailed or picked up? Then say: "Send a friend to us." (SMILE). "Thank you for coming." MUST BE SAID TO CLIENT AT CONCLUSION!! (SMILE)

COURTESY: A smile does all. . . and even more. A smile and a greeting does MORE THAN ALL AND EVEN MORE. Always ask clients if you can help them, DON'T have them wait if it can be avoided. Indicate where they should be seated, tell them about the coffee, let them know you'll be with them shortly, be **PLEASANT & SMILE!**

INCOME TAX INTERVIEW OUTLINE - METHOD II

DEVELOP QUESTIONS TO GET THESE ANSWERS:

Heading:

1. Names (spelling) and social security numbers (both husband and wife).
2. Correct mailing address (not just home address).
3. Filing status (discuss different ones if living apart, head of household, etc).
4. Dependents (watch spelling of children's names, get ages).
5. Age (both husband and wife. Get birthdates).
6. Telephone numbers (both home and business numbers).

Income:

1. W-2's (make sure the social security numbers are correct). (Always ask if they were employed at more than one place).
2. Business income and expenses.
3. Sales and/or exchanges including personal residence. (Be sure to get all expenses.)
4. Pensions (taxable and non-taxable for 70R). Remember social security payments received.
5. Rent and royalties, income and all expenses. (If depreciation used, check that they still have everything listed. Check for new items).
6. Interest and dividends.
7. Partnerships, Sub Chapter S Corporations and Trusts.
8. Farming (make sure it is not a hobby farm). Income and expense (watch proration of expenses to personal share).
9. Unemployment compensation.
10. State tax refund
11. Other taxable & nontaxable income and expenses. (Doublecheck for homeowner or rent refunds).

Income Adjustments:

1. Moving (watch miles).
2. Employee business expenses (including reimbursements).
3. Pension plans (Ira, Keogh, etc.)
4. Military pay (watch Oregon exclusions).
5. Alimony
6. Disability income

Credits:

1. Child care
2. Elderly credits (retirement credit). Must owe tax on federal return to use.
3. Investment credit
4. Earned income credit
5. Other possible credits: weatherization, etc.
6. Political contributions

Itemized Deductions:

1. Medical deductions. Get all medicines, doctors, dentist, and medical travel. Remember only 9 cents per mile for travel. Check that these were all paid by taxpayer in the year, and none reimbursed by insurance.
2. Taxes, property taxes, other taxes and state tax withheld.
3. Interest, home, auto, contracts, charge accounts, etc.
4. Contributions, watch for other than cash, Salvation Army, Goodwill, etc.
5. Casualty or theft.
6. Other deductions: union dues, tax preparation fees, safety equipment, schooling, professional books, etc.

Be sure to check non-taxable income, for rent or property tax refunds. This includes welfare, unemployment, sick pay, disability income, child support, social security, inheritances.

INTERVIEW TIPS

Do's (for a successful interview):

Allow enough time. (Preferably an hour if a new client.)

Make the client feel comfortable.

Have your desk as uncluttered as possible.

Be courteous and professional. **SMILE, SMILE**

Ask straightforward questions, being certain to clarify yourself.

Reword question if client does not understand.

Verify what you hear by restating the answers to the client.

Make notes as you interview, for your records. **DON'T** trust your memory.

Answer all questions as fully as you can with the information at hand.

Obtain a copy of last year's return, either from your files or from the client.

If the client brings in a "Basketcase", be certain to explain additional fees that will be incurred if you do the sorting, their sorting will save them money.

Always make the client a list of additional information needed, keeping a copy in the client's file for your reference.

Always give the client a cost estimate for the return preparation, making certain it is understood that it is an estimated fee only. Inform the client of your payment policy regarding the preparation of the return.

STRESS the importance of good recordkeeping and receipts necessary for audit.

Always ask the client before the close of the interview if they have any questions in mind that they would like to discuss.

Always attempt to make client understand what information is needed and the reasons for your questions.

Control the interview. Do not let the client take over the conversation. At the beginnning, explain that you are going to ask some pertinent questions and from there: lead on. When the interview has terminated, stand up, offer your hand, thank the client for coming in and conclude the interview.

Don'ts (for a successful interview):

Do not downgrade the previous tax preparer.

Never make a client feel stupid or belittled.

Don't visit. This is a waste of your time and your client's time and you would be charging a fee unfairly.

Do listen if they need to tell you something that they feel important to the tax return.

Never quote final tax answers. If you give figures, always use round amounts and make certain the client understands it is an estimated amount only.

Avoid telling the clients that you WILL TAKE CARE OF OR HANDLE AN AUDIT. Tell them you will be available to help them in the event of an audit, and that they should notify you as soon as they are informed of a pending audit.

Some firms give a specific completed date and will telephone or drop a card only if something prevents them from meeting that date.

NEVER GUARANTEE a refund.

Never act hurried.

Never state a flat "yes" or "no" concerning whether an item can be used, unless you have all the information and can be positive in your answer. Tell the client you will check it out.

Never give the impression that you doubt the client's statements, but always check out the facts if you have doubts about deductions. Sometimes the facts sound like fiction, but, depending on the circumstances, the facts may be correct.

Never attempt a tax matter beyond your expertise. Always get assistance from a more knowledgeable tax preparer.

INTERVIEW METHODS

There are many methods of interviewing. The best way is always the way in which you feel most comfortable and get the information required. Remember that the client is nervous as well, and your calm attitude will control the interview. Be relaxed and at ease.

Always remember that with any method used, you must ask the correct question to get the needed answer. One method is the question and answer sheet where the taxpayer fills in the answers and you finish the questionnaire. Another method is taking notes and asking the questions of the taxpayer as you go. Be certain to cover all catagories even though you think that the category may not apply to this taxpayer. If in doubt of an answer, always repeat the question and state what you understand the answer to be. Ask the taxpayer if the statement is correct. Each business office has its own preferred method. If you have any doubts as to whether something is deductible, or includible as income, always check with the Tax Consultant and your resource material. Remember that most people who come to you do not understand taxes too well. Be patient with them when the same question is asked over again, or when they say they still don't understand.

Sample questionnaires follow as used by some offices in Oregon.

RECEIPT NO.: ______

1977

CODE: AA A -B C PTR

Last Name	Your first name and initial	Your Social Security No.	Your Age
	Spouse's first name and initial, if joint return	Spouse's Social Security No.	Spouse's Age
Home Address (Number and Street or Rural Route)		Phone No.	Elementary School District Number
City or Post Office	State / Zip Code	County	Occupation: Yours ▶ Spouse's ▶

Interview Date ______

Source ______

Tax Preparer ______

TDC:
___Hr.___Min.

Filing Status

1 ☐ Single (Check only ONE box)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separately. If spouse is also filing give spouse's social security number in designated space above and enter full name here ▶ ______
4 ☐ Unmarried Head of Household. See page 7 of instructions to see if you qualify ▶ ______
5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19). See page 7 of instructions.

Exemptions

6a Regular ☐ Yourself ☐ Spouse Enter number of boxes checked ▶
b First names of your dependent children who lived with you ______ Enter number ▶
c Number of other dependents (from line 7) ▶
d Total (add lines 6a, b, and c) ▶
e Age 65 or older . ☐ Yourself ☐ Spouse
Blind . . . . ☐ Yourself ☐ Spouse Enter number of boxes checked ▶
f TOTAL (add lines 6d and e) ▶

7 Other dependents: (a) Name	(b) Relationship	(c) Months lived in your home. If born or died during year, write B or D.	(d) Did dependent have income of $750 or more?	(e) Amount furnished for dependent's support: By YOU. If 100% write ALL.	By OTHERS including dependent.
				$	$

Presidential Election Campaign Fund ▶ Do you wish to designate $1 of your taxes for this fund? . . ___ Yes ___ No D__ R__ O__
If joint return, does your spouse wish to designate $1? . . ___ Yes ___ No D__ R__ O__

CHARGES:
1040 ______
"B""D" ______
"C/SE" ______
"E""F" ______
"G""R" ______
2106 ______
2119 ______
3903 ______
4831 ______
"ES" ______
______
______
______
Time ______
TOTAL ______
Mail
O/S ______
TOTAL ______

Math ______
Theory ______

MAIL TO:
Office
______
Client ______

LAST YEAR
Filed:
Fed.______
Ore.______
O/State.___
______
Std. ____
Item. ____
Refunds:
Fed $_____
Oreg $_____
PTR $_____
(H) (R)
Paid:
Fed $_____
Oreg $_____
Estimate Pd:
$________

ASK CLIENT REGARDING:

INCOME:
Interest ______
Dividends ______
Tip Income ______
Pensions/Annuities__
Rental Prop. ______
Sales/Exch. ______
Estate/Trust ______
Farm ______
Business ______
Part/Corp ______
Military ______
Alimony ______
______
______
______

ADJUSTMENTS: CREDITS:
Moving Exp ______
Employee Bus.Exp. ______
Tax Shelter Ann. ______
IRA/KEOGH ______
Political Contr. ______
Gas Credit ______
Child Care ______
Alimony ______
Education Exp ______
Job Seeking Exp ______
Casualty Loss ______
Weatherization ______
Constr.Commuting ______
______
______
______

FOR ITEMS:
Unemployment ______
Welfare/ADC ______
Social Security ___
Dep. Soc. Sec. ___
Disability/SAIF___
Child Support______
Inheritance______
Gifts/Grants______
Life Insurance_____
Veterans Benefits__
RR Retirement ______

AFFIDAVIT attached and made part hereof ☐

If you have unearned income and can be claimed as a dependent on your parent's return, check here ▶ ☐

DOES CLIENT HAVE? (Preparer MUST answer YES or NO)

Retirement Income Credit ______
Investment Credit ______
Earned Income Credit ______
Preference Items ______
Minimum Tax: Fed.____ Oreg. ____

Lump Sum Distribution ______
Should taxpayer INCOME AVERAGE ______
Material Attached For:
Political Contribution ______
Property Tax Relief ______
Capital Loss Carryover ______

Weather Cr.____
1040X ____

INTERVIEW SHEET

1. Date of Interview ____________ Number Assigned ____________

2. NAME OCCUPATION AGE BLIND SOC. SEC. #

(H) ____________

(W) ____________

3. ADDRESS ____________ Phone (H) ____________

4. CITY ____________ (B) ____________

5. Presidential Election Fund - Taxpayer: Yes ☐ No ☐ Spouse: Yes ☐ No ☐

6. Filing Status - Single ☐ Married/Separate ☐
Married/Joint ☐ Unmarried Head/Household ☐
Qualifying Widow(er) with dependent child ☐

7. Children:

Name	Age	Name	Age	Name	Age
(1)		(3)		(5)	
(2)		(4)		(6)	

8. Other Dependents? Yes ☐ No ☐

Name	Relationship	Mo. In Home	$750 Inc.	50% of Support?

9. Number of Months Oregon Resident ____________ Non-Resident ____________

10. Did you file an Oregon return last year? Yes ☐ No ☐
If no, reason ____________

11. Were any prior returns adjusted by IRS or Oregon, this year? Yes ☐ No ☐
(If yes, attach copies of same to this interview sheet)

12. CHECK THE FOLLOWING IF THE TAXPAYER HAD INCOME FROM:

Alimony ☐
Interest ☐
Dividends ☐
Rents/Royalty ☐
Pension Annuity ☐
Partnership ☐
Estate/Trust ☐
Subchapter S ☐
Farm ☐
Business ☐
Sale/Exchange of Property ☐

13. REVIEW ADJUSTMENTS TO INCOME (complete worksheet)

Moving Expense ☐
Employee Business Exp. ☐
IRA/Keogh ☐
Interest Penalty/Early Withdrawal ☐
Alimony Paid ☐
Disability Income Exclusion ☐

14. Adjustment for Oregon state adoption expenses ☐ Amount ____________

15. REVIEW CREDITS

Political Contributions ☐
Credit for Elderly ☐
Child/Dependent Care ☐
Investment Credit ☐
Foreign Tax Credit ☐
WIN Credit ☐
Excess Income - Homeowners Claim ☐
Residential Energy Credits ☐
Alternate Energy Device (OR) ☐
Loss of Two Limbs (OR) ☐
Earned Income Credit ☐
Targeted Credit ☐
FICA Excess ☐
Fuels Tax Credit ☐

Interview Sheet - page 2

16. ESTIMATED TAX PAYMENTS

April ____________ September ____________

June ____________ January ____________

17. Copies of Four Prior Year Returns Yes ☐ No ☐
If no, give reason ____________

18. Number of W-2's current year ____________ Is this complete? ____________

19. Did you sell any stock this past year? Yes ☐ No ☐

20. Does anyone owe you money which has become a bad debt? Yes ☐ No ☐

21. Do you have capital losses from a previous year to carry forward? Yes ☐ No ☐

22. Did you or your spouse have a second job? Yes ☐ No ☐
If yes, how many miles did you travel between the first and second job? ____________

23. If you had child or dependent care expenses, complete the following:

Name of Child/Dependent	Date of Birth	Relationship	Mo. in Home

Name/Address of Sitter	Soc Sec #	Relationship	Period of Care From	To	Amt. Paid

24. HOMEOWNER'S/RENTER'S TAX RELIEF

Husband/Social Security Received (plus Medicare) $ ____________
Spouse/Social Security Received (plus Medicare) ____________
Railroad Retirement ____________
Unemployment ____________
Child Support ____________
Welfare ____________
Veterans Benefits, Military Pay & Benefits ____________
Disability Pay, Life Insurance Proceeds, Personal Injury Damages, Strike Benefits ____________
Workmen's Comp., Accident & Health Insurance Payments ____________
Inheritances ____________
Gifts & Grants (____________ LESS $500) ____________

25. EMPLOYEE BUSINESS EXPENSES

Travel Expenses (away overnight) Number of days ____________
Airplane, railroad, boat, etc. fares ____________
Meals & Lodging/Actual (include tips) ____________
Automobile mileage ____________ miles @ 18.5¢ or actual ____________
Parking & toll fees ____________
Additional outside salesman expenses
Phone, secretarial, gifts, advertising, office in home, misc. ____________

Did you purchase a car for employer business Yes ☐ No ☐
If YES, cost of vehicle ____________ Percentage business ______ % Cost ______

26. ITEMIZED DEDUCTION SHEET - COMPLETE FOR ALL TAXPAYERS.

Interviewed by ____________

QUESTIONNAIRE

PERSONAL INFORMATION:

Your name ____________________ Age _____ Social Security No. ____________

Spouse's name ________________ Age _____ Social Security No. ____________

Occupations: H _______________ W __________________ Phone ____________

First name of dependent children who live in your home ____________________

Other dependents ____

IMPORTANT

When you bring in your data to use please make sure you include all the following:

1. W-2 forms and details of income
2. Last year's tax return (unless prepared by us)
3. Personal information (note changes from last year)
4. List on any questionable items
5. Completed tax questionnaire

SPECIAL ATTENTION CHECKLIST: Circle items that may require special handling.

Over 65
Blind
Surviving spouse
Head of household
Special dependents
Tax estimate paid
Alimony

Pensions/Annuities
Partnership/Corporation
Sales of property
Reimbursement of expenses
Disability Excl.
Outside salesman
Bad debts
Earned income credit

Child care
ADC or other aid
Property tax relief
Capital loss carryover
Military or reserve
Income averaging
Lump sum distribution of retirement or profit sharing funds

INCOME:

		Interest you received		Dividends you received	
		Name	Amount	Name	Amount
Commissions					
Fees/bonus					
Alimony					
Tips					
Rent/Royalties					
Annuities/Pensions					
Estates/Trust					
Sales					
Business					
Social Security					
Per Diem					
Other					

ADJUSTMENTS AND CREDITS:

Disability income ________
Moving expenses ________
Tax Sheltered Annuity ________
Keogh, Ira, etc. ________

Political
Contributions ________
Off-Highways ________

Business Expenses
Travel ________
Meals/Lodging ________
Meetings ________
Conventions ________

DEDUCTIONS

CONTRIBUTIONS:

Total cash contributions for which you have receipts or canceled checks. (List not required.) **Amount**

Other cash contributions ______
United Way ______
Cancer Society ______
Boy Scouts ______
Muscular Dystrophy ______
Multiple Sclerosis ______
Church ______
Contributions other than cash (list required) ______

TAXES PAID:

Real Estate ______
______
Sales tax ______
State income tax ______
Personal property tax ______
______________ tax ______

INTEREST PAID:

Most companies will supply interest figures on request:
Paid to:
______________ ______
______________ ______
______________ ______
______________ ______
______________ ______
______________ ______

Charge Account Loans:
______________ ______
______________ ______
______________ ______

Installment Contracts:
______________ ______
______________ ______

MEDICAL & DENTAL: **Amount**

Medicines & drugs ______
Medical Insurance ______
Hospital ______
Optical ______
Hearing Aid/Batteries ______
Doctors & Dentists, Nurses (List not required.) ______
Transportation Expenses (mileage) ______
Other Medical: __________ ______
____
Less insurance reimbursement received on above. ______

MISCELLANEOUS:

______
Education (to maintain or improve) ______
Employment Agency fees ______
Job hunting expenses ______
Investment expenses ______
Professional dues . . ______
Professional journals ______
Safety equipment ______
Tax preparation fees ______
Uniforms ______
Union dues ______
Workshops ______
Other ______

We can assist you in computing interest paid if you will supply us with:

1. The balance due at end of each month.
2. Date of first payment.
3. Total number of payments.
4. Amount of payment.
5. Amount of original loan.
6. Total finance charge (if known).

SESSION 19
FINAL EXAMINATION

Reading Assignment: Review of all material

Homework Assignment: Three tax situations follow

Situation 1

Ann V. Proctor, age 32, SS# 534-10-7632, 114 N.W. Albin Way, Cliff, Oregon 97071, Glacier County, phone 508-7676, is divorced and employed as an office manager of a local firm. Her W-2 shows wages of $14,200; federal W/H $2,124; State W/H $469, and FICA $944.30.

Her two children, Tom (born July 2, 1974) and Jane (born August 12, 1975) live with her.

During the year, Ann received $2,400 in child support payments from her ex-spouse, John Proctor, Donner, CA. The divorce decree does not designate who gets the exemption. She presents you with the following information regarding support during the year:

Per month:	Rental value	$175
	Food	$150
	Utilities & phone	$85

Support Items:	Tom	Jane
Clothing	$260	$205
Education	50	60
Medical & Dental care	76	220
Personal grooming	90	75
Child care	650	1,050

During the year, Ann put up and paid for storm doors costing $75 each for $150 total. She also put in insulated drapes which cost $300. Her home was built in 1975. She had claimed no other credit.

Other income: Interest on savings, $173; dividends, $184 (from qualifying corporation). State tax refund $30. (Schedule A for prior year indicated EID of $300, Oregon tax paid had been $120.)

Expenditures:

$260	health insurance	$135	cash contribution; church
257	dental bill (Tom)	120	sorority dues
415	doctor bill (Ann)	587	taxes on residence, assessed value $22,500. (no discount taken)
196	medicine (Jane)	58	interest paid to U.S. Bank
726	interest on mortgage	180	tuition to Tom's parochial school
50	doctor bill (mother)	200	casualty loss (Tom wrecked the neighbor's bike)

$100 a month to her mother who does not live with Ann. Mother cannot get along on $238 a month social security.

She wishes to contribute $3 to the Oregon Nongame Wildlife fund.

From January 1 to May 31, Ann paid her neighbor, Mrs. Clark, $200 a month to care for Tom and Jane. The children went to Mrs. Clark's home. Tom went to first grade on September 1, and Jane was sent to Tiny Tot Nursery School. The charge for nursery school was $100 a month for this. No Presidential Campaign Fund. Complete 1040, 40 and 70R with appropriate schedules. **(Note: Jane attended nursery school 9/1 to 12/31. Ann's mother kept the children during the summer and Ann paid her an extra $100 monthly for this.)**

Situation 2

Sherry A. Johnson, a widow age 66, has no earned income from wages. She lives at 6276 Mockingbird Lane, Garden City, OR 97421, Windsor County. Her SS# is 491-54-2808. Telephone: 542-7893. She lives alone and has no dependents. She does not want to check off for the Presidential Campaign Fund. She has no foreign bank accounts or trusts. She files her returns 4/10/82.

Sherry received the following income:

Social Security: $1,200 (includes supplemental medicare of $123.60)

Dividends:

ABC Company	$680	($120 is non-taxable)
United, Inc.	465	
LMN Corp.	105	
Retail clerks Credit Union	1,150	
Coop Patronage	18	

Interest:

Sentinel Bank	$780	Federal S/L	$1,300
U.S. Treasury Note	526	(All Savers)	

Fully taxable pension:	Retail Clerks Union $3,400	
March Gambling winnings	$1,000	(spent $800 on Keno Tickets)

She paid the following expenses:

Medical:

Dr. Hansley	$312	Medicines & Drugs	$75
Dr. Boardman	86	Lab fees	35
X-Rays	130	Medical transportation (286 miles)	
St. Mary's Hosp.	460		

She received from Medicare reimbursement for doctor and hospital bills: $545

Taxes:
Paid Oregon for all previous year's tax return on 4/15 of last year: $286

Paid Oregon $200 estimate in January of this year.

Contributions (all receipted)

Church of Christ	$800	United Campaign	$25
Heart Association	50		

Miscellaneous:

Safe deposit box	$15	(She stores income-producing papers)
Tax preparation	50	

Sherry made an estimate to federal this year of $400. Her landlord's name is L. Easy. She paid him $120 a month for January through June, and $125 a month for the rest of the year. Prepare complete federal and state returns.

Situation 3

Complete a federal and Oregon income tax return for the following clients.

Name	SS#	Age
John A. Smith	536-00-7800	37
Mary E. Smith	356-78-0000	34

Address: 122 "B" Street; Anytown, Multnomah County, OR 97200

Phone: 222-2222

Children: Ann, age 2

They also provide $100 a month to John's mother, Mable. That's her only income except $90 a month from the Veteran's Administration. She lives in her own house (worth $35,000) that is all paid for, and she defers the taxes.

They decide not to contribute to the Presidential Election Campaign Fund.

John owns a truck and calls his business J.S. Trucking. It is a cash basis business he owned all year and he has no employees. His gross income was $42,110. His expenses were:

Gas, oil	$7,000	Insurance	$3,000
Tires	1,000	Licenses, PUC's permits	3,000
Loading expense	4,211	Long distance phone charges	700
Interest paid on equipment	1,200	3000 business miles on personal auto..	
Overload fines	150	Bookkeeping and tax preparation	100
Repairs	2,000		

He bought a new heavy-duty trailer for his business on July 1 for $6,000. Use the depreciation that will give the greatest amount of deduction this year.

John made a contribution to his IRA and also to Mary's IRA(spousal). $100 each.
His depreciation schedule from last year looks like this:

	Cost	Deprec. in prior years	Method	Life	Dep. this year
Truck 1/2/80	$30.000	0	DDB	7 years	$8,571

Their other income is $18 dividend from the credit union. Mary has Sears stock she inherited that paid $123 in dividends. John owns AT & T stock that paid $40 in dividends. John won a cash prize of $100. Mary inherited $800 from her uncle. Mary is still collecting unemployment from last year's job. Total received: $3,000
They did not itemize deductions last year. This year they have listed:

Medical insurance	$714
Dental	80
40 office visits to the doctor @ $2 each	80
Medical mileage	750

Their house is assessed at $30,000; assessed taxes $825. (They paid all on 11/15).
House interest is $1,800
Interest paid on charge accounts was $100
They paid $66 in Oregon income tax last year.

Church contributions receipt shows $250 for the year.

John donated his time to the church for a special project that would have cost anyone else $1,000.

They also gave used furniture to the Goodwill that had a fair market value of $150.

During the year, they paid Jane Hill, who is not related, $270 for babysitting Ann.

Mary had a car accident. She didn't turn it in to the insurance company because she didn't want her insurance rate to increase. She paid $325 as well as $65 damage for the car she hit. (They have a $100 deductible insurance)

John paid a federal estimate tax of $2,500. If there is an overpayment he wants to leave in enough to cover the 1st quarter of next year's estimate.

An Oregon Form 10 is required for this tax return. It is possible to relieve this taxpayer of any penalties by use of exception #4. Should the taxpayer file an Oregon estimate for the coming year? How much should the estimate be quarterly? ________

(Time permitting the preparation of Form 10 is elective).

SESSION 20

REVIEW, INTERVIEW TECHNIQUES

APPENDIX

Student Workbook

1 States with Individual Taxes

2 Crossword Puzzle

3 Vocabulary List

4 Checklists

    Income and Deductible Items
    Investment Credit
    Energy Credit
    Armed Forces Personnel
    Farmers
    Older Taxpayers
    Automobile Expense Deductions
    Losses
    Adjusted Gross Income Deductions

5 Various Worksheets

6 Solution to Puzzle

7 Oregon Income Tax Services Law and
Code of Professional Conduct

8 Information Circulars (Oregon)

9 Oregon Publication 17½

STATES WITH INDIVIDUAL INCOME TAXES

Alabama
Arizona
Arkansas
California
Colorado
Connecticut (div only)
Delaware
Dist. of Columbia
Florida (intangible
tax only)
Georgia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
New Hampshire (Int & Div)
New Jersey
New Mexico
New York
No. Carolina
No. Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
So. Carolina
Tennessee (Div & Int)
Utah
Vermont
Virginia
W. Virginia
Wisconsin.

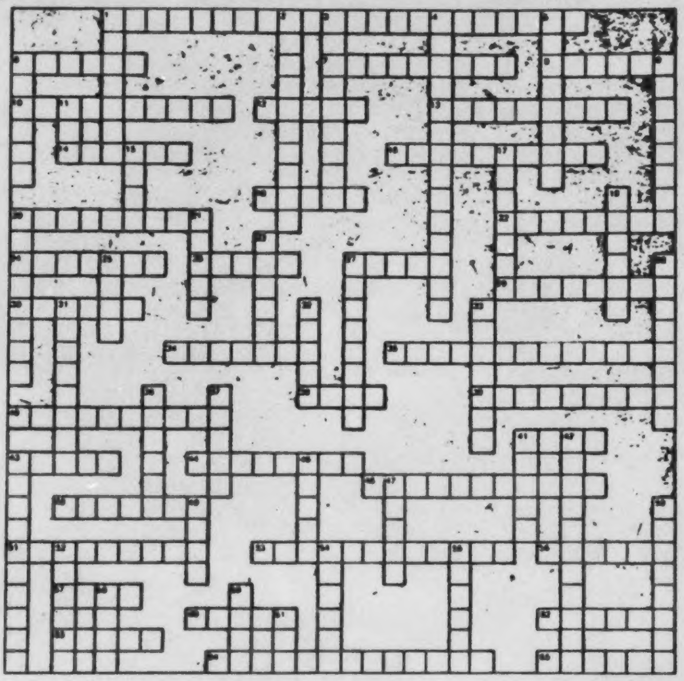
STATES WITHOUT INCOME TAX

Alaska
Nevada
So. Dakota
Texas
Washington
Wyoming

Puerto Rico and Virgin Islands have tax imposed also

Department of the Treasury Internal Revenue Service Publication 21 (Rev. 10-81)

Crossword Puzzle



Across

1. Federal income tax is paid to the ______ ______ ______.
6. Wages and tips are ______ income.
7. Your tax ______ is the amount of tax you must pay.
8. Your filing ______ determines the rates at which your income will be taxed.
10. ______ contributions are deductible.
12. You are allowed an extra personal exemption if you are ______.
13. Form W–4 is the Withholding ______ Certificate.
14. Many working students are ______ from withholding.
16. A ______ ____ is one imposed on imported goods.
18. Always attach ______ _ of Form W–2 to your return.
20. The ______ Amendment to the Constitution gave Congress the power to pass a direct income tax law.
22. Individual income taxes are the largest source of federal ______.
24. Your dependent must be a U.S. resident or ______, or resident of Mexico or Canada for some part of the year.
26. Deduct your ______ dues on Schedule A (Form 1040).
27. Deduct ______ income taxes on Schedule A (Form 1040).
[illegible] unmarried taxpayer may claim up to $200 as an interest and ______ exclusion.
30. A calendar year taxpayer usually must file his or her ______ by April 15.
34. Taxpayers who have not received a ______ may be considered unmarried under certain circumstances.
35. The cost of safety equipment is a deductible ______ expense.
38. Make sure you sign and ______ your return.
39. Subtract ______ payments from the amount of your casualty loss.
40. Our tax system operates on a ____ __ ____ __ basis.
41. Report to your employer, your ______ totaling $20 or more in any month.
43. Most taxpayers must file their return by ______ 15.
44. ______ is unearned income.
46. Usually, all tax ______ originates in the House of Representatives.
48. You must keep ______ for information on your return.
51. Every taxpayer is entitled to at least one personal ______.
53. More services were needed as we developed from an ______ society to an industrial nation.
56. If required to file a return, you must ______ all of your gross income.
57. You must keep receipts for records for any deductible ______ payments you made.
60. The Government wants you to pay only your fair ______ of the nation's taxes.
62. If you do not have any dependents and have never been married, use the ______ filing status.
63. You may use the Optional State ______ Tax Tables.
64. The zero ______ ______ is a minimum amount of income that is not subject to taxation.
65. You must file a return to get a tax ______

Down

1. ______ your deductions if they exceed your zero bracket amount.
2. Taxation without representation led to the ______.
3. One aspect of our tax system is ______ compliance with the law.
4. ____ ______ of tax means that you determine the amount of your tax liability
5. Damage from a car accident is called a ______ loss.
6. ______ taxes are imposed on sales of certain articles, transactions, occupations, and items.
9. Taxes we pay provide money for governmental ______
11. You cannot claim the ______ and blindness exemptions for a dependent.
15. You should file a declaration of estimated taxes if your estimated tax is $200 or ______.
17. A ______ couple, living together, may file a joint return or separate returns.
19. Your taxpayer identification ______ is your social security number.
20. The Social ______ Act was passed during President Roosevelt's first term in office.
21. All bills for raising revenue shall originate in the ______ of Representatives.
23. You may choose to have one ______ of your tax liability placed in the Presidential Election Campaign Fund.
25. If all withholding allowances are claimed with one employer, ______ allowances are claimed with a second employer.
27. Married taxpayers may file a joint return or ______ returns.
28. Gross income minus certain adjustments is ______ gross income.
31. Every ______ must have a social security number.
32. The amount you ______ for professional magazines is deductible as a miscellaneous deduction.
33. A single person working for one employer, is allowed a ______ withholding allowance.
36. Amounts paid to your ______ are deductible as a medical expense.
37. A ______ return usually results in a lower tax liability than separate returns.
41. If your ______ self-employment income is $400 or more, you must file a return.
42. A ______ income tax has increased tax rates on higher brackets of income.
43. To claim __ ______, five dependency tests must be met.
45. You may correct an ______ on the return that you filed by filing Form 1040X.
47. File your return ______ to get your refund sooner.
49. ______ your return to the Service Center in your area.
50. The information you put on Form W–4 determines the amount of income tax ______ from your pay.
52. You may deduct your ______ itemized deductions.
54. If you are required to file a return, you must report all taxable ______ you receive.
55. ______ a copy of your return for your records.
58. Excise tax is imposed on the ______ of certain articles.
59. The ______ market value is the price a willing buyer would pay a willing seller if neither was forced to buy or sell.
61. Earned income credit abbreviated

VOCABULARY LIST

Accelarated Cost Recovery System (ACRS)- A mandatory system of depreciation for property placed in service after 1980.

Accelarated Depreciation
Any method of depreciation which gives the taxpayer an allowance for depreciation which is greater than that allowed by the straight-line method. Accelerated depreciation presupposes that depreciation will be greater in the first year.

Account Numbers - The Internal Revenue Service in connection with its automatic data processing program is authorized to require taxpayers and other persons filing returns to provide an individual account number or employer identification number on the return. Account numbers to be used are social security numbers. Numbers will be assigned by the Internal Revenue Service to those who do not have a social security number. An employer identification number is assigned to all employers, taxpayers engaged in a trade or business, estates, trusts, partnerships, payers of dividends and interest or any other persons required to file information returns.

Accounting Method - A taxpayer's accounting method is usually the cash or the accrual basis of accounting by which records are kept. Special methods of reporting income, such as the installment basis are variations of these two methods.

Accounting Period - An accounting period is the 12-month period on the basis of which the taxpayer's records are kept. If there are no records, the accounting period is the calendar year. If books are kept on the basis of a 12-month period ending with a month other than December, the accounting period is a fiscal year.

Accounting To Your Employers - Submitting to your employer an account book, a diary, a statement of expenses, or similiar expense record.

Accrual Basis of Accounting - Income is accounted for as and when it is earned whether or not it has been collected. Expenses are deducted when they are incurred whether or not paid in the same period. The accrual basis is distinguished from the cash basis.

Additional First Year Depreciation - 20 percent of the cost of property in addition to regular depreciation, taken in the first year only.

Adjusted Basis - The basis for gain, loss or depreciation, etc., is explained under BASIS on one of the following pages. After such a basis is determined, it must be adjusted for capital items which increase it and for deductions taken which decrease it, such as depreciation, depletion, etc.

Adjusted Gross Income - This is a technical term which applies to individuals. It is the gross income reduced by business expenses of all taxpayers (including only certain designated expenses of employees and all expenses attributable to property held for production of rents or royalties) and certain loss adjustments. The amount of the adjusted gross income determines the amount of the medical expense deduction and limits the amount of the charitable contribution deductions.

Adjusted Itemized Deductions - The amount by which total itemized deductions excluding those for medical expenses and casualty or theft losses exceed 60% of adjusted gross income.

Aliens (Non-Resident and Resident) - Non-Resident--a person who is not a resident or a citizen of the United States. Resident--a person who is a resident, but not a citizen of the United States.

Alimony - Alimony consists of payments a spouse is required to pay the estranged spouse because of change in their marital relationship due to divorce or legal separation. Alimony is distinquished from payment for the support of children and refers to payments by one spouse to the other for the latter's support rather than for the support of children. In income tax law, the concept of alimony is broad. Alimony payments include agreement under a decree of divorce or of separate maintenance; under a decree of support if a taxpayer is separated; and from a written separation agreement executed by the husband and wife after August 16,1954, if the wife is separated from her husband and they file separate returns. Such payments are regarded as alimony only if they are periodic payments--that is, where no principal sum is named in the decree, instrument, or agreement, or where, if a principal sum is named, it is to be paid or may be paid over a period ending more than ten years after the time the decree or agreement was executed. Even then, if a principal sum is named, the part which is a periodic payment in any one year may not exceed ten percent of the principal sum. If an alimony payment meets the above tests it is deductible by the payer and is income to the recipient.

Amortization - The commonly known definition of the word amortization differs from the income tax meaning. The principal definition is the building up of a fund, through periodic payments, for the purpose of paying off an obligation such as a mortgage when it becomes due in the future. In income tax parlance, amortization usually means the writing off of an amount already spent for a capital item of definite duration, similiar to the depreciation write-off on depreciable property. A premium paid on the purchase of a ten-year bond is written off prorate, reducing the taxable interest. In another sense, if bonds are issued by a corporation at a discount, the issuing corporation may deduct, as an additional cost or borrowing money, the difference between the issuing price and the amount which the corporation must ultimately pay, amortized over the term of the bond.

Amount Realized - The amount of money and fair market value of other property received in a sale or exchange.

Annualizing - This term is applied to short period returns and to declarations of estimated tax by both individuals and corporations as an alternative method of avoiding the penalty for underpayment.

Annuitant - The purchaser or beneficiary of the contract or plan who will receive periodic payments upon reaching a specified age.

Annuities - This term is a periodic payment, whether for a period certain or for one or more lives. Under the general rule for taxing annuities, the taxpayer's investment in the contract is usually divided by the number of payments expected. That portion of each payment is nontaxable. The remainder of each payment is taxable as received.

Annuity - Generally a contract between an individual and an insurance company, trust company, or an individual selling the plan.

Annuity Starting Date - The first day of the first period for which an amount is due as an annuity payment under the annuity contract, e.g., the starting date for an annuity beginning July 1, 1978, with the first payment received on August 1, 1978, would be July 1, 1978.

Appraisal - A judgment as to quality, status, value, etc.

Appreciated Property - Property which has gained in value.

Arm's Length - At a good distance, i.e., a businesslike transaction which can reasonably be expected to be honored, even though the parties may be related.

Audit - An official examination of your financial records. In the case of tax returns, an examination by the Internal Revenue Service.

Away From Home - This is used for the deduction of traveling expenses (meals and lodging, etc.) incurred in the pursuit of a trade or business as an employee. Home is not synonymous with residence. It means the principal business locations, employment site or job station. Traveling expenses are deductible only when absence from home is temporary in the strict tax sense.

Bad Debts - Bad debts may be deducted only in the year in which they become uncollectible. If business debts are partially uncollectible, a portion may be charged off. Nonbusiness bad debts are treated the same as losses from sales of capital assets held for less than 12 months; that is like short-term capital losses. A debt which arised from the performance of services or the selling of goods by a cash-basis taxpayer may not be deducted if the income from the services or the profit from the sale has not previously been reported as income. However, bad debts which arise from the lending of money are deductible, subject to the above limitations on nonbusiness bad debts.

Basis - This term is used mainly in finding a gain or loss on sale of property or in computing depreciation. It represents what the property cost the taxpayer but is of broader meaning than the term cost. The basis (adjusted) of property is deducted from the amount realized to find the gain or loss on its sale. If the taxpayer acquired the property by purchase, the basis is the cost, except in special circumstances, such as the conversion of the property from personal to rental or other business purposes, when the basis for loss and for depreciation may be different from the basis for gain. However, the basis for the depreciation deduction is usually the same as the basis for gain. If the property was not acquired by purchase but was acquired as a gift property, inherited property, received in an exchange, etc., special rules apply in finding the basis.

Bequest - A bequest is a gift by will of personal property. It is not includible in the income of the recipient. Basis is determined by reference to the value of the property at the date of death of the testator.

Boot - This term is a nontechnical term used by some tax writers to describe other property received in an exchange which, but for such other property would be nontaxable. Partial gain may be recognized for the receipt of such boot not to exceed the fair market value of the boot. Such boot or other property consists of money or property other than the stock or securities which may be received tax-free under the tax-free exchange provisions of the Code.

Calendar Year - This is the most widely used accounting period. It is the period of 12 months beginning January1 and ending December31. It is required to be used by a taxpayer who does not keep a regular set of books on a different accounting period.

Capital Assets - Generally, capital assets includes all assets except those which may be said to be of an inventory type--that is, assets held for sale to customers in the ordinary course of the taxpayer's trade or business.

Capital Expenditures - Capital expenditures are those made for assets of a more or less permanent nature--those with useful lives of more than one year. They may not be deducted in the year they are made, even though made in connection with a trade or business. If they are wasting assets, they may, in proper cases, be the subject of a depreciation deduction.

Capital Gain Distribution - (Capital Gains Dividend), Distribution from a mutual fund of money realized as a gain on the sale of a part of the mutual fund's investment portfolio.

Capital Gain Property - Property that would yield long-term capital gain if sold at FMV on the date of the contribution to a charitable organization. Contributions of capital gain property may normally be deducted at their FMV.

Capital Gain - They are gains from sale or exchange of "capital assets" as that term is defined above. Capital gains are the excess of the amount realized on the sale of a capital asset over its adjusted basis.

Capital Losses - These are losses from sales of capital assests, defined above.

Capitalize - Treat amount spent for additions or improvements to property as capital expenditures.

Carrying Charges - When the finance or service charge on an installment purchase of personal property is separately stated it is called the carrying charges. The actual interest charge cannot be ascertained but the charges are referred to as carrying charges, a portion of which is deductible as interest under a special formula provided by the Code.

Cash Basis of Accounting - Cash Basis of Accounting must be used by all taxpayers who do not keep books and is elective as to others, except that it may not be used if inventories are necessary in order clearly to reflect the income. On the cash basis, income is reported only as it is received, in money or other property having a fair market value, and expenses are deductible only in the year they are paid.

Casualty Loss - The law allows deduction of casualty losses for all types of assets, including those which are purely personal, such as one's home, jewelry, clothing, etc. The Code mentions as casualties, fire, storm, shipwreck, "or other casualty." Theft, although not strictly a casualty, is put in the same category for income tax deduction purposes. "Other casualties" include floods, earthquakes, blasting, damages to one's own car in a collision, damages from a car skidding on icy streets, freezing of plants, trees, or pipes, and unprecedented drought. A casualty is an event resulting from some sudden, unexpected, or unusual cause. Personal casualty and theft loss deductions are limited to the excess of each loss over $100.

Child Care - Expense of employment-related household services, child care, disabled dependent care, or disabled spouse care which may qualify for a tax credit. See Dependent Care Credit.

Child Support - Money paid for the support of a minor child subsequent to a divorce or separation. It is neither deductible by the payer nor taxable to the payee but may be used in determining qualifications for dependency exemptions.

Claim for Refund - A claim for refund must be made by the taxpayer entitled to get back part or all of a tax he has paid. A claim for refund may be made on a tax return, in the space provided just for such use. If, on the other hand, an overpayment is discovered after a return has been filed, the taxpayer must file an amended return. Both are regarded as refund claims, and, if filed within the time limits prescribed in the law, will fully protect the taxpayer's rights as to the amount claimed and the grounds on which the claim is based, regardless of how long it takes for the I.R.S. to act on the claim.

Claim of Right - This term is used in connection with money or other property received as income which the recipient holds under a claim of right,but which he is required to restore in whole or in part in a later year, to the payer, because it turns out that the recipient did not have an unrestricted right to it. If the amount restored exceeds $3,000, Code Sec. 1341 provides some relief, by means of tax limitation in the year of restoration, from the requirement that the restored amount must be deducted in the year of restoration and may not reduce the income of the prior years.

Community Income - Income considered to belong equally to both spouses.

Community Property - This term is for the property owned by husband and wife, each sharing equally in the income therefrom. The concept of ownership of property by a husband and wife in community is of Spanish origin, adopted from early Spanish Law by eight western and southern states--California, Nevada, New Mexico, Arizona, Idaho, Washington, Louisiana, and Texas. In all of these states, this concept was in effect long before 1913, and therefore, long before the distinct income tax advantages were recognized--advantages which prevailed until income-splitting by a husband and wife was introduced into the income tax picture in 1948. The main reason for incorporating the income-splitting provisions in the Internal Revenue Code in 1948 was to put the rest of the states in substantially the same position taxwise as the community property states.

Commuting - The act of traveling from your residence to your place of business and back to your residence.

Compensation - Amounts received for services rendered.

Condemnation - Taking over real property (land and buildings) by the city or state.

Constructive Receipt - Constructive receipt of income applies only to a taxpayer on the cash basis. The taxpayer is taxed on income only as it is received. If the income is unreservedly subject to his demand, so that he could have received it, but chose not to do so, it is regarded as having been constructively received and is taxable as if it had been received.

Contributions - This refers to gifts made to charitable, etc., organizations. Such contributions are deductible by individuals.

Conversion - Personal use property "converted" to income-producing property.

Cost Basis - This is the purchase price paid for property or the value at which it is taken into income (as in the case of services paid for in property.) It is the amount that is most often applied against the amount realized from sale of property in finding the profit or loss. It is also the figure most often used in determining the depreciation deduction. However, in special circumstances where property is not acquired by direct purchase, there may be a special basis for a finding of gain or loss and depreciation.

Credits Against Tax - These are the deductions on the income tax return which are taken from the tax. Examples of credits against the tax allowed for income tax purposes are the investment tax credit, the foreign tax credit, amounts withheld at the source from wages or otherwise, and retirement income credit. The credit for overpayments of tax in other than the taxable year is discussed under "Credits or refunds," below.

Credits or Refunds - If tax is overpaid for any year, it ordinarily will be refunded by the Commissioner if the taxpayer owed no tax for any other year. If he does owe a tax, the overpayment is credited against the tax that is due the I.R.S., and any balance is refunded. Credits and refunds can be allowed only within specified periods if within such periods a claim for refund or credit is filed.

Death Benefits - This term is used to exclude from gross income; (1) life insurance proceeds payable by reason of death, and (2) employee's death benefits paid on account of death and totalling not more than $5,000.

Declaration of Estimated Tax - This is a statement by an individual of the amount of tax he estimates he will owe during the current taxable year on income which is not subject to withholding and also the excess amount over that withheld on income which is subject to withholding. Declarations are required if gross income exceeds certain amounts specified in the law, or if more than $500 of income not subject to withholding is received. But no declaration is needed if estimated tax is not expected to be more than $100. The estimated tax of an individual is to be paid in advance on as many as four payment dates (April 15, June 15, September 15, and January 15 for a calendar year taxpayer), depending on when he meets the requirements for filing a declaration.

Declining Balance - This is a method of depreciation deduction by which an agreed-upon uniform rate is applied, not to the original cost or other basis of an asset, but to its depreciated balance. Thus, the amount of which the uniform rate is applied declines every year. For this reason, the rate is higher than the straight-line rate.

Deductions From Gross Income - Deductions from gross income are amounts representing expenditures (or liabilities, in the case of accrual-basis taxpayers), for which deduction is allowed from the amount of gross income reported. Deductions from gross income are limited, in the case of individuals, to certain business expenses and losses from the sale or exchange of property. They are deductible whether an individual uses the zero bracket amount (standard deduction) or itemizes his nonbusiness deductions.

Deficiency - This is a shortage in tax payment. Technically, it is the amount by which the actual tax (as it should have been computed) exceeds the amount shown on the return, if any, plus any amounts previously assessed as a deficiency, and minus any rebates. The Tax Court can decide a tax question for a taxpayer only if he has received a notice of deficiency and has jurisdiction only over income, estate and gift taxes.

Dependent Care Credit - This credit is allowed when a taxpayer maintains a household and may claim a limited deduction for employment-related expenses incurred in obtaining care for any of the following individuals (who must be members of the household): (1) A child of the taxpayer who is under the age of 15: (2) A dependent of the taxpayer who is physically or mentally disabled; (3) A disabled spouse of the taxpayer.

Dependents - this is any of the following relatives over half of whose support for the calendar year was received from the taxpayer: children, grandchildren, etc., stepchildren; brothers and sisters; grandparents, great-grandparents, etc.; stepparents, nephews and nieces; uncles and aunts; and inlaws (father, mother, son, daughter, brother or sister). It includes also non-relatives living as members of the taxpayer's household if the foregoing support test is met; and also a descendent of a brother or sister of the father or mother of the taxpayer who is receiving institutional care and who, before receiving such care, was a member of the taxpayer's household. Legally adopted children are considered as children by blood. Special rules apply to non-resident alien dependents.

If the support of a dependent was furnished by several persons, one may claim the dependency deduction if the others agree. A $1,000 deduction is allowed the taxpayer for each such dependent. In the case of a taxpayer's child under 19 years of age, or a taxpayer's child who is a student, gross income of the dependent can exceed $1,000 and the taxpayer is still entitled to the deduction if he furnished the child's chief support.

Depletion - The decrease of natural resources (minerals, coal, oil, timber, etc.) due to their extraction from the source of supply and disposition by sale or otherwise is called depletion. In determining taxable income, the Code provides allowances for the exhaustion of such assets.

Depreciable Asset - Tangible property used in business or held for the production of income with a determinable useful life of one year or more.

Depreciable Business Property - Any asset used in business, or held for the production of income, with a determinable useful life of more than one year.

Depreciation - This is the deduction to reflect the gradual wasting away of an asset due to the passage of time or the use to which the asset is put, or a combination of both. The Code permits deduction, in computing taxable income, of a reasonable allowance for this exhaustion of property used in a trade or business, including rental property. It includes normal obsolescence; that is, a hurrying up of this process because the asset will be out-of-date before it is actually worn out.

Devise - A devise is a gift of real property by will. The term is used mainly in connection with finding the basis of property so acquired. Such basis is the value at the date of death of the decedent, or the later optional valuation date, if chosen for estate tax purposes. Also, devices are excluded from gross income for purposes of the federal income tax.

Dividends - This may be either dividends or a return of capital invested. If they are dividends, they are taxed as gross income except to the extent of the "dividend exclusion", below. A dividend is any distribution by a corporation out of its accumulated earnings and profit, or out of earnings and profits of the taxable year at the close of the year. An insurance dividend is not a true dividend but a return of premium. Dividends from a savings and loan association or credit union are interest, not dividends.

Dividend Exclusion - A specified amount excluded from gross dividends received by an individual taxpayer, not corporations. Dividends from certain life and mutual insurance companies, foreign corporations,etc., are not entitled to the exclusion.

Dual Status Taxpayer - A person who is not a citizen who establishes or terminates residency in the United States during the year.

Earned Income - This term means: (1) The income of a U.S. citizen working in a foreign country (for which an exclusion is granted); (2) The earnings of a retired person, who is receiving retirement income in addition to income he earns; (3) The earnings of a self-employed individual engaged in a business where both capital and personal services are income-producing factors; (4) Pensions, in some cases; or (5) Salaries, wages, etc. If you were engaged in a trade or business in which both personal services and capital were material income-producing factors, a reasonable allowance as compensation for the personal services rendered by you, not exceeding 30 percent of your share of the net profits of such business, shall be considered earned income.

Earned Income Credit - A refundable credit based on earned income for taxpayers with low incomes.

Embezzlement - Stealing money or property placed in your care.

Employee - An employee must be distinquishable from an independent contractor for tax purposes. This is important, for the withholding of income taxes on wages applies only to employees. Also, employee status will affect the manner and extent of allowance of some deductions. An employee is one who is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result, he is not an employee. However, officers and elected officials of the United States, state, and local governments are employees, as are also officers of corporations.

Employee Stock Options - This is an option to purchase stock issued by a corporation to its officers and employees, which, if exercised according to special statutory rules, may result in deferral of compensation and also in capital gain treatment, at least in part, upon the eventual sale of the stock. The three types of options described in the law which can qualify for special treatment are: (1) Qualified stock options; (2) Options issued under employee stock purchase plans; and (3) Restricted stock options (covers options issued before 1964). The option price must not be less than the option's fair market value at the time of issue (with one exception) in order for it to receive qualified stock option treatment. The price may be as low as 85% of fair market value at the time of issue for an option to qualify for one of the other two option classes. Conditions under which an option may qualify for special treatment in one of these three classes relate to the plan under which the options are issued, the option provisions, and the period for which the employee holds the option and the stock received by exercise of the option.

Excess. Itemized Deduction - Excess of total itemized deductions over the zero bracket amount.

Exclusion Ratio - The percent of each annuity payment that represents a return of the investment in the contract. NOTE: The exclusion ratio is not recomputed when there is an increase in the annual benefits due to cost of living increases, etc. when the "general rule" is used.

Exemptions - In arriving at the tax base, or the figure at which the tax rates are applied, net income is reduced by the amount of personal and dependency exemptions. Individuals, estates and trusts are allowed exemptions. Every individual taxpayer is allowed at least one exemption. On a joint return, the two (or more) exemptions of both the husband and wife are allowed. One spouse is allowed the exemption (or exemptions) of the other on a separate return if the other has no gross income and is not the dependent of another person. Exemptions also are allowable for dependents of the taxpayer. An additional exemption is allowed to each taxpayer or spouse who is blind, as well as to each taxpayer who has attained the age of 65.

Expected Return - The amount an annuitant or pensioner can expect to receive based upon the average life expectancy for age and sex at the annuity starting date, e.g., the total amount expected to be received under the contract, determined at the annuity starting date, by multiplying the annual benefits (amount to be received yearly) by the life expectancy.

Expenses - Expenses deductible for federal income tax purposes are divisible into three general classes: (1) Trade or business expenses; (2) Expenses in connection with production of income, for management, conservation, or maintenance of property held for collection, or refund of any tax, and (3) Personal, family, or living expenses. Expenses of the first two categories are deductible in determining taxable income. The third category expenses are not deductible, except in a few unusual cases where they are specifically allowed by law. Examples of such specific allowances are medical expenses, charitable contributions, taxes, and interest. Expenses are to be distinguished from capital expenditures, which are not deductible when incurred, but must be deducted (if at all) over the life of the asset.

Fair Market Value - This is the amount that a willing buyer and willing seller would agree upon for a piece of property amount which would induce a willing seller to sell and a willing buyer to buy property.

Fair Rental Value - Is the amount which would include an agreement between a willing renter and a willing tenant to rent the property.

Fiduciary - One who acts for an estate or trust to manage the property of the estate or trust.

Filing of Return - This is the process of filling out the return and sending it or taking it to the office of the District Director of Internal Revenue or the Regional Service Center for the taxpayer's district. Timely mailing of a tax return or payment is considered timely filing. The tax law provides that timely mailing of other documents, such as claims, declarations of estimated tax, etc. is the equivalent of timely filing.

Finance Charges - Amounts paid for the privilege of making purchases on a deferred payment basis.

First-In, First-Out Rule - This applies to otherwise unidentifiable stocks where a number of shares of the same kind of stock have been bought at different times and different prices. If they cannot otherwise be identified, those which were purchased first are regarded as having been sold first in determining the cost price to be applied against the selling price for the purpose of finding any gain or loss on sale.

(The term is also applied to inventory items where the method LIFO is not used. As so used, the first-in, first-out rule is also referred to as the "FIFO" method.)

First Year Depreciation - Additional 20 percent depreciation allowed for purchase of tangible personal property that has a useful life of at least six years.

Fiscal Year - A fiscal year is the period of twelve months ending on the last day of a month other than December. It is thus distinguished from a calendar year, ending always on December 31. It is a recognized accounting period for income tax purposes. A taxpayer may change from a calendar year to a fiscal year, or vice versa, or from one fiscal year to another. A change from one accounting period to another always requires the filing of a short-period return and may require approval by I.R.S.

Foreign Corporation - This corporation is one which is not organized under the laws of one of the states or territories or of the United States.

Foreign Tax Credit or Deduction - If a United States citizen or resident or a domestic corporation (or certain other taxpayers) incurs or pays income taxes to a foreign country, he may elect to deduct them in determining his taxable income, or take them as a credit against his United States tax. This must be made as to all foreign taxes of the taxable year. The credit will be limited to the percentage of the total tax that the taxable income (before deduction for personal exemptions) from foreign countries is the total taxable income.

Gifts - This is a voluntary transfer of property from one to another without consideration or compensation. For income tax purposes, the words "gift" and "contribution" usually have separate meanings, the latter word being used in connection with contributions to charitable, religious, etc., organizations, whereas the word "gift" refers to transfer of money or property to private individuals, needy persons, friends, relatives, etc. The recipient of a gift is not required to include it in the gross income. Neither is the maker of a gift entitled to deduct it (except for business gifts to customers of $25 or less per donee per year.) Property acquired by gift usually takes as its basis the same basis it had in the hands of the donor.

Gross Income - Gross income refers to all income which is taxed. The law enumerates certain specific items of income which are not to be included in gross income, and therefore are nontaxable. With these exceptions, all income is includible in gross income. The more important exclusions are: certain death benefits, gifts and inheritances, interest on state obligations, certain compensation for injuries or sickness, and social security benefits.

Gross Profit - Income before expenses.

Gross Profit - Merchandise Business -Sales less cost of goods manufactured and sold.

Gross Profit - Merchandise Business -Sales less the cost of goods sold.

Gross Profit - Service Business -Gross receipts.

Gross Rents - Income from rents before expenses.

Head of Household - A head of a household is an unmarried individual who is not a surviving spouse and who maintains as his home a household which is the principal place of abode of at least one child or grandchild or any other relative (except a cousin) for which the taxpayer is entitled to a dependency deduction. Married children or grandchildren give a taxpayer head of a household status only if the taxpayer is entitled to a dependency deduction for them. Taxpayers may also be a head of household if they support their parents in a different household from their own and furnished over half the cost of maintaining their household. A dependent will, under no circumstances, give a taxpayer head of a household status if the dependency exemption is allowable to the taxpayer only because of a multiple-support agreement. "Head of a household" status provides a tax advantage for such persons, by means of a special tax rate which gives them about half as much tax advantage as is afforded a husband or a wife filing a joint return and splitting their income.

Holding Period - The holding period of property is the duration of time property has been held by a taxpayer, or the duration of time treated for income tax purposes as having been held. The term is most important for two kinds of income tax provisions --the "wash sales" provisions and the "capital gains" provisions. Whether a capital gain or loss is long-- or short-term is determined by the answer to the question of whether or not the asset sold or exchanged has been held by the taxpayer for more than one year. Losses on "wash sales" of stock or securities are disallowed if substantially identical stocks or securities are acquired within a 61-day period beginning 30 days before the sale and ending 30-days after the sale. Under this provision the holding period is computed with reference to calendar months and fractions thereof, regardless of the number of days in the particular months involved.

Home - See "Away from Home."

Husband and Wife - The status as husband and wife on the last day of the taxable year governs the right to file a joint return.

Imputed Interest - This prevents taxpayers from selling property under a deferred payment contract in which no interest or an unrealistically low rate of interest is charged and realizing all capital gains or increased capital gain on the sale. The unstated or imputed interest, as computed under Sec. 483, is taxable to the seller as ordinary interest income and is deductible by the purchaser as interest paid.

Income - This term is used in conjunction with such descriptive terms as "gross income", "taxable income", "adjusted gross income", and "distributable net income", all of which are defined herein. It is not entirely synonymous with earnings and profits.

Income Averaging - Taxpayer's having unusual fluctuations in income may take advantage of an averaging device. This is to give taxpayers with unusual fluctuations in income the same tax treatment as taxpayers with stable incomes.

Income-Splitting - This represents a convenient way of referring to the Code provision which permits the taxable income on a joint return to be "cut in half," the tax to be determined on such half, and this tax multiplied by two in determining the total tax. The income-splitting benefits are now allowed through a lower-rate table which is used for finding the tax on a joint return. Thus, it tends to keep the tax in lower brackets.

Individual Retirement Arrangement - A qualified retirement plan set up by an individual.

Information at Source - This is a provision of the Internal Revenue Code to represent a part of the government's machinery for obtaining first-hand information from the payer of certain fixed or determinable annual or periodical income to any person, such as salaries, wages, rents, royalties, annuities, and pensions totalling $600 or more, or dividends and interest payments totalling $10 or more (the Commissioner may require a return for payments of less than $10). Most salaries and wages are covered by Form W-2, showing salaries and wages paid and amounts withheld under the withholding of tax on wages provisions. Those not so covered are reported on Form 1099 along with the other types of income mentioned above. Form 1099 is required to be filed only by payers engaged in a trade or business as to payments made in the course of such trade or business.

Inheritance - This is property acquired through laws of descent and distribution from a person who dies without leaving a will. Property so acquired takes as its basis, for gain or loss on later disposition or for depreciation, the fair market value at the date of death of the decedent from whom it is acquired. An inheritance of property never represents taxable income, but the income from an inheritance does. Also, if the inheritance is of income from property, such income is taxable.

Installment Method - This is a type of reporting income. Under the installment method, the gross profit to be realized is determined, and the taxpayer reports as income in any taxable year that proportion of the payments actually received during the year which the anticipated gross profit bears to the total contract price.

Intangible Property - Property whose value is in the rights it creates (such as cash, stocks, bonds, notes and accounts receivable).

Interest - An amount paid for the privilege of using someone else's money.

Internal Revenue Service - The division of the U.S. Treasury Department which is responsible for collecting taxes.

Inventory - An inventory is a detailed list of articles of property. It refers only to a list of articles comprising stock in trade--articles held for sale to customers in the regular course of a trade or business. The cost of goods sold during the year is determined by adding to the inventory at the beginning of the year the purchases during the year, and subtracting from this sum the inventory at the close of the year.

Investment Tax Credit - Credit against tax is allowed equal to 10% of the qualified investment in "Sec. 38 property." This property includes all depreciable personal property and selected other depreciable property. The qualified investment is the sum of a percentage of the basis of new Sec. 38 property and a percentage of the cost of used Sec. 38 property. Any unused credit can be carried back 3 years and carried over 7 years.

Investment in the Contract - The cost of the contract to the annuitant reduced by any return of premiums, dividends, unrepaid loans, and amounts excludable from gross income and increased by the allowable death benefit exclusion.

Involuntary Conversions - This is when property is destroyed in whole or in part, stolen, requisitioned or condemned (or where there is a threat of imminence of requisition or condemnation), and as a result the property is converted into money or other similiar property, through insurance proceeds, condemnation awards, etc. The law has special provisions relating to involuntary conversions, as such, only in cases where the conversions result in gain--that is, where the amount recovered exceeds the cost or other basis of the property converted. Under circumstances prescribed in the law it permits the nonrecognition of gain on such involuntary conversions, with a carried-over basis.

The only special provisions relating to losses from involuntary conversions are those relating to "casualty losses" (see the definition herein), but these do not include condemnations. Losses on involuntary conversions which are not within the category of casualty losses are governed by the general rules which apply to losses--they are allowable deductions if incurred in a trade or business or in a transaction entered into for profit.

Joint Return - A return combining income, exemptions, and deductions of both husband and wife.

Joint and Survivor Annuities - Contracts involving two annuitants which provide for fixed payments to first annuitant for life, and after the death of the first annuitant, fixed payments to the second annuitant for life. (Payments to the second annuitant may be either identical or different from those paid to the first annuitant).

Jointly Owned Property - Property held in the name of more than one person.

Larceny - Unlawful taking without right, with intent to deprive rightful owner.

Legally Blind - Central visual acuity does not exceed 20/200 in the better eye with corrective lenses, or the widest diameter of the visual field is not greater than 20 degrees. Need statement from physician or a certification.

Legally Separated - Separated under a decree of separate maintenance.

Life Expectancy - The number of years an individual of a certain age can be expected to live determined by using actuarial tables. These tables were developed by insurance companies from statistical records.

LIFO- This is a rule for identification of items in an inventory in determining their cost. It is the abbreviation for Last in-First out. By this method, goods remaining on hand at the close of the taxable year are treated as, first, those included in the opening inventory to the extent thereof, and second, those acquired during the taxable year.

Long-Term Capital Gains and Losses - Long-term capital gains and losses are gains and losses on sales or exchanges of capital assets that have been held for more than one year. A net long-term capital gain or loss is the excess of gains over losses, or vice versa. An excess of net long-term capital gains over net short-term capital losses is subject to a special % deduction.

Lump-Sum Distribution - The total distribution of the employee's entire balance from a qualified plan of an employee who retires, dies, or in some way is separated from service with his or her employer.

Minimum Tax - This is an additional tax on certain tax preference items of an individual. **Alternative Minimum Tax** is also an additional tax computed on certain tax preference items.

Multiple Support - If two or more persons, who would otherwise be entitled to an exemption for a dependent, together furnish more than half of a dependent's support any one of them who furnishes more than 10% of the support is entitled to the exemption if all the others who furnished more than 10% of the support file written declarations that they will not claim an exemption for the individual supported for that taxable year.

Mutual Fund - A company that is in the business of buying and selling stocks and sharing its income with those investing in it (sometimes called a regulated investment company).

Negligence - There is a % penalty if any part of any underpayment of tax is due to negligence or intentional disregard of rules and regulations, but without intent to defraud. Negligence is a lack of such reasonable care and caution as would be expected of a prudent person.

Net Operating Loss - A net operating loss is limited substantially to a net loss from operation of a trade or business, although casualty losses and losses from sale of business assets are included within its scope. A net operating loss may be carried back three years against the income of those years, to the earliest year first. Any unused portion of such loss may be carried forward for seven years or the entire loss. Carryforward for seven years only is also available. The law contains specific rules for computation of the net operating loss, the amount of the carryovers and carrybacks and the amount of the deduction.

Nonqualifying Corporation - A corporation whose dividends do not qualify for dividend exclusion (e.g., foreign corporations, tax-exempt corporations, tax-exempt farmers' cooperatives).

Nonqualifying Dividend - A dividend that does not qualify for the dividend exclusion.

Nonresident Alien - A nonresident alien is an individual who is not a citizen of the United States nor a resident thereof. Taxation depends on whether U.S. source income is "effectively" connected with the conduct of a U.S. trade or business.

Nontaxable Exchange - Exchange on which no gain or loss is recognized.

Nontaxable Pension - A pension form the Veteran's Administration, Railroad Retirement Board, or Social Security.

Old-Age Exemption - Taxpayers are allowed an additional personal exemption if they have attained the age of 65 before the close of the taxable year. If a taxpayer is entitled to an exemption for spouse, and the spouse is 65 or over, taxpayer receives an additional exemption. There is no additional old-age exemption for dependents.

Ordinary Gain - Gain realized from the sale or exchange of property other than a capital asset and other than depreciable property or real estate used in the seller's trade or business held one year or more.

Ordinary Income Property - Property that should yield ordinary income or short-term capital gain if sold on the date is was contributed to a charitable organization. The deduction for a contribution of ordinary income property is limited to its adjusted basis. This means that none of the appreciation is deductible.

Ordinary Loss - Loss realized from the sale or exchange of property that is not a capital asset in the seller's hands.

Outside Salesman - The term "outside salesman" means a salesperson whose business is to solicit, away from the employer's place of business, business for the employer. It does not include delivery salesperson such as milk and bread truck drivers, laundry route drivers, etc., even if they do solicit business from customers on their routes. An outside salesperson can deduct expenses such as entertainment, telephone calls, telegrams, and secretarial help from gross income in determining adjusted gross income. Such expenses are not in lieu of the standard deduction.

Overpayment of Tax - This is a payment or a total of payments in excess of the amount determined to be the correct amount of tax for the taxable year.

Partnership - This term is more comprehensive than when taken in its ordinary meaning. It includes a syndicate, group, pool, joint venture, as well as an ordinary partnership, in which two or more persons join their money and/or their skill in carrying on as co-owners a business for profit.

A partnership does not pay taxes as such. It is treated as a conduit for the purpose of determining the nontaxable income, dividend income, partially taxable interest, ordinary income and the capital gains and losses (separately) and showing the distributive shares to be taken into the income of the individual members of the partnership.

Patronage Dividends - These dividends are distributions by cooperatives to members and customers as rebates which reduce the cost of purchases or which represent additional profit on sales after the goods have borne their share of the combined cost of the cooperative's operation.

Penalties - Penalties are imposed at a flat rate without regard to lapse of time. There are two exceptions--the penalty for the underpayment of estimated tax, imposed at 20% per annum for underpaid installments, and that for late filing of a return (delinquency), imposed at 5% for each 30 days, up to a maximum of 25%. The penalty for underpayment of an estimated tax is not deductible in determining taxable income, whereas if it were called interest it would be deductible. There is also a negligence penalty (5% of a deficiency) and a fraud penalty (50%).

Pension Plans - This is the employee's pension, profit sharing, annuity, and stock bonus plans, which, if they qualify, are exempt from income tax. If the plan qualifies for exemption, the employees are not taxed at the time contributions are made to the plan by the employer, but they are taxed when they received distributions. If the plan does not qualify for exemption, the contributions to it by the employer are income to the employee when made, if the employee's rights cannot be forfeited.

Pensions - This is the employee retirement benefits. They are taxable if received from a former employer for past services. If they are received under Social Security laws, they are exempt. They are also exempt to a limited extent when received for injuries or sickness. If they are in the nature of annuities, they are subject to the rules for annuities.

A pension presupposes past services; however, annuities also can be the result of past services, as where an employer purchases one for the employee, either under an exempt plan, or individually, upon retirement of the employee. In either case, the terms of the annuity (nonforfeitability of the employee's rights, provision for death benefits, etc.) may be such that part or all of the amount paid for it by the employer is income to the employee (compensation for past services), and this amount of income (plus any part of the cost the employee might him/herself contribute) is the employee's investment in the contract for the purpose of determining the nontaxable portion of the annuities received later.

Personal Property - Property other than real property.

Personal Service Income - Earned income and pensions and annuities attributable to service rendered by the taxpayer.

Personal-Use Property - Property used for personal purposes.

Qualified Charitable Organizations - An entity usually an association or nonprofit corporation, designed to provide some form of public charity or service and specifically approved by the U.S. Treasury as a recipient of charitable contributions for tax purposes.

Qualified Plan - An arrangement designed by an employer to provide employee benefits (generally an employee profit-sharing or pension plan) which has been submitted to I.R.S. for a formal approval as a condition of its adoption by the employer.

Qualifying Widow(er) - Filing status using the same tax rates and tables as married filing jointly. See also Surviving Spouse.

Real Property - Real estate.

Realized Gain (or loss) - Total amount of gain (or loss).

Recapture - Term used for treatment of gain on depreciable personal and real property when disposition takes place. It is also used for investment credit when disposition of Sec. 38 property occurs before the original life has been reached.

Recognize Gain - Portion of gain realized that is subject to tax.

Recovery Property - is tangible depreciable property placed in service after 1980.

Refund Feature - A provision in an annuity contract that provides for a refund of all or part of the cost of the contract to the beneficiary or estate of the annuitant if a specified amount (or stated number of payments) was not paid to the annuitant before death.

Recovery Property - is tangible depreciable property placed in service after 1980.

Regulations - The Commissioner publishes an interpretation of the law in the form of regulations. They do not have the force and effect of law except in those cases in which the law on a particular subject calls for rules on that subject to be expounded through regulations.

Reinvested Dividends - Earnings of investment companies (mutual funds) which have been accepted by the shareholder as additional shares in the company's stock rather than cash. They are taxable in the year constructively received.

Repairs - These do not appreciably prolong the life or increase the value of the property but are expenditures to keep property in good condition. If the property is business or income-producing property, ordinary and necessary repairs are deductible.

Replacements - These are expenditures for making good or whole the portions of property which have deteriorated through use or have been destroyed through accident. Although deductions for the gradual deterioration or for the destruction are allowable, subject to the limitations in the Code, such replacements are capital expenditures, to be distinguished from "repairs".

Resident Alien - This is a person who is not a citizen of the United States, but who has a residence in the United States. He/she is taxed on the same types of income from all sources, and in the same manner, including the same tax rates, as a citizen of the United States.

Robbery - Theft accompanied by violence or threats.

Royalty Income - Income received in exchange for the right to exploit property.

Salvage Value - This is usually understood to mean the remaining worth of an asset after its useful life to the taxpayer has terminated. It may still have value in use to another person who may acquire it at the end of its useful life to the taxpayer, or it may have junk value.

Such value, of course, can be estimated only when the asset is new. An estimate of zero salvage value is not uncommon. But, with high depreciation allowances, the matter of whether or not an asset has any salvage value, and the amount of that value, cannot be disregarded. Except in the case of declining-balance depreciation, the estimated salvage value must be deducted from the cost or other basis at the outset before computing any depreciation. And even where the declining-balance method is used, the depreciation deduction must stop when the asset has been written down to salvage value.

Sec. 38 Property - See "Investment Tax Credit".

Sec. 1231 Asset - These assets are depreciable assets used in a trade or business, real estate used in a trade or business, certain timber and coal interests, cattle and horses held for draft, breeding, dairy or sporting purposes and other livestock. If the combined gains from sale or exchange of all such assets plus the combined gains form involuntary conversion of such assets and of capital assets exceed the combined losses on all such assets, the gains and losses are treated as if they were capital gains and losses. If the combined losses exceed the combined gains, all the gains and losses (except those from such involuntary conversions as are treated as sales or exchanges of capital assets) are ordinary gains and losses.

Sec. 1245 Property - This property includes depreciable personal property, elevators and escalators, and other depreciable property (other than buildings or their structural components) used as an integral part of manufacturing, production, extraction or the furnishing of certain utility services. When Sec. 1245 property is disposed of, any gain on the disposition is treated as ordinary income to the extent of depreciation deducted after 1961. Thus, although Sec. 1245 property may be also a Sec. 1231 asset, Sec. 1231 gain will be realized on the disposition only to the extent that the gain realized exceeds the post-1961 depreciation.

Sec 1250 Property - this property is depreciable realty including all intangible real property (such as leases of land or Sec. 1250 property) and all other tangible real property except property which qualifies as Sec. 1245 property (see "Sec. 1245 Property" above). Even though Sec. 1250 property may not be depreciable in the taxpayer's hands, it is still Sec. 1250 property if depreciation deductions were taken by a prior owner and were taken into consideration in determining the adjusted basis of the property in the hands of the present owner.

Self-Employment Income - This provision was expanded so that self-employed persons would be eligible for benefits upon retirement at the same age and in the same manner as wage earners. The self-employed person pays a tax on his self-employment income, that is, his net earnings from self-employment (if $400 or more).

Separate Maintenance Payments - Amounts paid to a spouse under a court order.

Service Business - A business in which income is produced chiefly by personal services rendered.

Short-Term Capital Gains - See "Holding Period".

Single - Unmarried on the last day of a calendar year.

Single Life Annuity - A contract that provides for fixed payments for the life of the annuitant.

Sole Proprietor - Single owner of a trade or business.

Spouse - This term is for purpose of avoided repetition of the words "husband and wife".

Standard Mileage Rate - An approved amount used to compute and optional deduction for transportation as opposed to a deduction based on actual expenditures. The rate is currently 20 cents per mile for the first 15,000 miles and 11 cents a mile thereafter.

Statute of Limitations - This is the period within which actions may be brought upon claims or within which rights may be enforced. It is used mainly in referring to the period within which the Commissioner may assess a deficiency in income tax and, generally, is three years from the date of filing the return, with some modifications and extensions. It refers also to the time within which a taxpayer may claim a refund--three years from the due date of the return, or two years from payment of tax, whichever is later, also with modifications. The term is also used in connection with the deduction for bad debts which may be uncollectable after a certain length of time because of state statutes of limitation. However, this in itself cannot be the basis of a bad debt deduction without further proof of worthlessness. (State laws differ on Statute of Limitations).

Stock Dividend - A distribution to the shareholder's of a corporation in the form of additional shares of the corporation's stock.

Straight-Line Depreciation - This is the method of writing off the cost or other basis of depreciable assets in equal annual amounts over the estimated useful life of the assets.

Student - The word "student" is significant in income tax matters because a child of the taxpayer (that is, a son, stepson, daughter, or stepdaughter) who is a student, regardless of age and regardless of the amount such child earns during the taxable year may be claimed as a dependent of the taxpayer if the latter in fact furnishes more than half his support. In the case only of such a student, in determining whether taxpayer furnishes more than half the support, amounts received by the student as scholarships need not be taken into account. The student must be a full-time student at an educational institution or must be pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution or of a state or political subdivision of a state.

Subchapter S Corporation - A domestic corporation that has only one class of stock and (usually) 15 or fewer shareholders (who must all be individuals or an estate) and has filed an election to have corporate income taxed directly to the individual shareholders.

Sum of the Years-Digits Depreciation - An accelerated method of depreciation. A different fraction (with constant denominator) is applied each year to the basis less salvage value.

Support - Funds expended for a dependent, including amounts for food, lodging, utilities, education, medical and dental services, clothing, entertainment, transportation, church contributions, etc.

Surviving Spouse - A surviving spouse is a person whose husband or wife died during either of the two taxable years immediately preceeding the taxable year. The taxpayer cannot have remarried and must maintain in his/her home a dependent son, stepson, daughter or stepdaughter for whom taxpayer is entitled to a dependency exemption.

Tangible Personal Property - A touchable, movable thing.

Tax Exempt Income - Income that by law is not subject to income tax.

Tax Forms - Printed forms, prescribed by the U.S. Treasury for the purpose of filing income tax returns.

Tax Home - The entire city or general area of your principal place of employment, your place of business, or your station or post of duty.

Tax Sheltered Annuity - A deferred income plan granted to employees of public schools, colleges, and certain tax-exempt charities. Similiar to a qualified pension plan in private industry, it allows the employer to purchase, in amounts limited by the employee's salary, an annuity on behalf of the employee.

Tax Table Income - Adjusted gross income reduced by excess itemized deductions or increased by the unused zero bracket amount.

Taxable Income - This is gross income less deductions allowed by law. It is the amount on which the tax is based, after all deductions, including personal exemptions of individuals.

Taxable Year - This is the calendar year or the fiscal year ending during such calendar year upon the basis of which the taxable income is computed. Taxable year means in the case of a return made for a fractional part of a year the period for which such return is made.

Tenancy in Common - This is when two or more individuals jointly own property. Each owns an undivided share of the whole. All tenants in common have right of possession and use of any part of the property.

Tenancy by the Entirety - A tenancy in which parties jointly own property. After the death of one, the survivor takes the whole estate. Tenancy by the entirety can be terminated only by joint action of the parties during their lifetime.

Tentative Carryback Adjustment - This is in order to effect prompt credit or payment of refunds on account of a net operating loss carryback or certain credits. Code Sec. 6411 provides, upon application of the taxpayer in a prescribed manner, for a so-called tentative adjustment. The Commissioner is required to act upon an application for tentative carryback adjustment within 90 days from the date such an application is filed, by allowanace or disallowance in whole or in part. If the Commissioner allows any part of the amount claimed, the allowance is then against any deficiencies or unpaid taxes for other years, and any remainder is refunded. This allowance is only tentative, and the Commissioner may later assess a deficiency, or the taxpayer may file a claim for refund.

Theft - Larceny, frequently by breaking into homes.

Trade Date - Date on which a capital asset is actually bought or sold.

Trade or Business - A trade or business consists of any activity which occupies the time, attention, and labor of persons for the purpose of a livelihood or profit. It includes the rendering of services to others as an employee for compensation, the carrying on of a profession, and every business occupation carried on for subsistence or profit, and into which the elements of bargain and sale, barter, exchange, or traffic enter.

Transportation Expenses - These include only the cost of transportation from one point to another. In the case of rail travel by Pullman, it includes the full cost of the ticket, including berth, but not meals en route. Transportation expenses are significant from an income tax viewpoint in that they are allowable medical expense for a patient traveling to and from hospital or sanitarium or a distant doctor's office. Also local transportation costs (such as bus, streetcar or taxicab) are deductible from gross income in determining adjusted gross income when incurred in a trade or business, including the business of being an employee.

Travel Expense - This is deductible in determining adjusted gross income in the case of a trade or business or a transaction entered into for profit. It includes the entire amount spent for meals and lodging while away from home in the pursuit of trade or business. An employee can also deduct travel expense in addition to taking the standard deduction. Any reimbursement from the employer for such expenses would be includible in the taxpayers gross income.

Trust - A legal entity created to handle funds or property for others.

Unused Zero Bracket Amount - The excess of the zero bracket amount over the total itemized deductions for an individual who is required to itemize.

Useful Life - Estimated life in years during which a taxpayer will use an asset in his trade or business.

Wash Sales - This is a sale of stock of securities at a loss that cannot result in deduction of the loss if substantially identical stocks or securities are purchased within a 61-day period beginning 30 days before the date of the sale and ending 30 days after the sale. The acquistion or reacquisition of such stock or securities has no effect on sales at a gain.

Zero Bracket Amount - A "standard deduction" amount in lump sum allowed (or disallowed) to each taxpayer. An amount (ZBA) that IRS has determined to be nontaxable to individuals on their tax return.

¶ 250. Checklist of Income and Deductible Items.

If you don't take all deductions to which you are entitled, or if you report income which is not taxable, you will pay more tax than necessary. Conversely, if you don't report all the income you receive, or if you take deductions which are not allowable, you are inviting trouble from the Internal Revenue Service. The checklists on the following pages will help you report only the income you should and deduct everything allowable.

¶ 260. Checklist of taxable income items. In preparing returns, taxpayer must make sure to include in income only the income which is taxable to him. The following list contains all the common items of taxable income, together with a reference to the paragraph at which they are discussed.

- Accident and health insurance proceeds*-3241
- Administrator's fees-3086, 5015
- Advances-3164
    - commissions, not repayable-3095
    - rents and royalties-5101, 6379
- Advance or prepaid premiums-5015
- Agreement not to compete payments-4552
- Alimony (if periodic payment)-7300
- Annuities*-5190, 5210
    - sale of-5220
- Anti-trust damage recoveries*-5261
- Arbitrage bonds, interest on state and local, issued after Oct. 9, '69-5135
- Armed forces pay*-3071 *et seq.*
- Assigned income-5300
- Awards to employees-3005
- Back pay awards-3012
- Bad debt recoveries*-5254
- Bad debt reserves no longer needed*-6492
- Bargain purchases*-3041, 3209
    - by employees-3041
    - by stockholders-5058
- Bequest of income-1786, 5046
- Blood sales proceeds-5015
- Board or lodging furnished by employer*-3280
- Bonus on mineral leases-7691
- Bonus received by employee-3001, 3052
- "Boot" received by a shareholder under a corporate reorganization plan where there is a gain on the exchange-2302
- Breeding fees-7561
- Building and loan association dividends or interest-5123, 7803
- Business income of exempt organization-8000 *et seq.*
- Business profits-5001
- Cancellation
    - contract or lease-3061, 3062, 4022
    - debt*-5270
    - distributorships-4022
- Capital gains-4350
- Child's earnings-1351, 3085, 5015
- Christmas bonus-3001, 3052
- Clergymen-3082 *et seq.*
    - fees and pensions-3001, 3082
- Commissions-3003 *et seq.*
    - advances-3095
    - insurance renewal-3003
    - split*-5015
- Commodity credit loans*-7564
- Compensation for personal services-3001 *et seq.*
- Condemnation awards-4224
- Consent dividends*-2110
- Conservation payments by Dept. of Agriculture-7562
- Constructive dividends*-5052
- Constructively received income-2566
- Contest prizes-3005, 5030, 7561
- Contract, recoveries for breach*-5261
- Contract cancellation payments-3061, 3062, 4025
- Contract profit-4630 *et seq.*
- Cooperative distributions*-5093, 7636
- Corporate reorganizations, boot on-2300
- Damages*-5260 *et seq.*
- Dealer's reserve account, credit to-2586
- Death benefits over $5,000-3251
- Debt cancellation or settlement*-5270
    - credit balance written off-5253
- Decedent's income paid after death-1903 *et seq.*
- Directors' fees-3001
- Discharge of taxpayer's legal obligation, payments by employers or tenant in-3201, 5102
- Dismissal pay-3001, 3054
- Distributions from trust income*-1701
- Dividends*-5050
- Dividends in property*-5060
- Drawings by salesmen*-3095
- Embezzlement proceeds-5016
- Employee annuities*-5202
- Employee bargain purchases*-3041, 3209
- Employee benefits under SUB plans-3006

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[*] partly or wholly tax-free in certain situations.

[*] partly or wholly tax-free in certain situations.

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Checklist of taxable income items (cont'd)

Executor's fees-3086, 5015
Exempt organizations' unrelated business income-8000 *et seq.*
Expense allowances and reimbursements*-5853, 5873
Federal officers' and employees' compensation-3078 *et seq.*
Fees for personal service-3001
Fellowships and grants*-5033
Fiduciary's fee-3086, 5015
Foster home payments*-5015
Gains from sales or exchanges-4002, 5980
Gambling winnings-5016
Government employee's pay-3078 *et seq.*
Government payments-3070 *et seq.*, 7562
Group insurance premiums*-3270
Guaranteed Annual Wage payments-3006
Hedging transaction gains-4161, 4624
Illegal income-5016
Improvements by lessee*-5103
Imputed interest-2900 *et seq.*
Income assigned to another-5301
Income tax paid for taxpayer by employer or tenant-3203, 5102
Insurance
- contract, sale or exchange*-5220
- premiums qualifying as alimony-7333, 7334
- premiums paid by employer*-3270
- proceeds of surrendered policy*-5185

Interest*-1275, 5120
- imputed-2900 *et seq.*
- on insurance dividends left on deposit-3077, 5093
- on municipal obligations insured by Farmers Home Administration sold after '70-5132
- on state and local arbitrage bonds issued after Oct. 9, '69-5135

Judges of U. S. courts, compensation-3078
Jury fees-3078, 5015
Lease cancellation payments-4022
Lease-back income of exempt organizations-8012
Life insurance
- discount for prepayment of premiums-5015
- premiums paid by employer*-3270
- premiums paid by employer under a qualified plan*-3459

Liquidating dividends*-2354
"Lockout" benefits*-3007
Lodging or meals*-3280
Marital settlement, property settlement*-4030, 7312
Mileage allowances-5859
Military and naval personnel pay*-3071 *et seq.*
Minor's earnings-1356, 3085, 5015
Moving expenses paid for employee-3204, 6322
Mutual fund dividends-5093
National Guard compensation-3072
Oil and gas royalties-7689
Option to purchase stock*-3320, 3380
Partner's share of partnership income-1531 *et seq.*
Partner's guaranteed salary and interest-1570, 1571
Patent infringement damages*-5253, 5261
Patent royalties-5110
Patronage dividends*-5093, 7633
Payment of debt with property*-4029
Payoffs-5016
Pensions*-3001, 3208
Per-unit retain allocations-7633
Political contributions received*-5015
Prepaid income-2590
Prizes and awards*-3005, 5030
Professional fees-3001
Profit-sharing plan distributions-3780 *et seq.*
Profits from business or profession-5001
"Put" and "call" sales proceeds-4161, 4400
Railroad Retirement supplemental annuity payments-5015
Recoveries or refunds of previously deducted items*-5250
Reimbursement of expenses*-1069, 5853, 5873
Renewal commissions-3003
Rents-5100
Residence sold, gain on*-4260
Retirement pay-3001
Rewards-3020 *et seq.*
Royalties-5110
Salary-3001
Sales of property, gain on-4000, 5980
Sales commissions-3003
Salesmen advances*-3095
Savings bank interest-5123
Savings bonds interest-5143
Self-employed retirement plan benefits-3890 *et seq.*
Self-employment income-1300
Separate maintenance payments (if periodic)-7300 *et seq.*
Severance pay-3001, 3054
Short sales, profit on-4150
Sick pay*-3220
Social Security paid by foreign government-5015
Soil conservation and domestic allotment payments-7562
State employee's compensation-3078
Stock dividends and rights*-5071
Stock options*-3320, 3380
Stock redemption*-2330
Strike benefits*-3007, 5015
Sub S corporation income, by stockholders-2055
Subsidies from government*-7562, 7754
Suggestion awards-3005, 5031
Supplemental unemployment benefits-3006
Tax refunds*-5255, 7078

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* partly or wholly tax-free in certain situations.

* partly or wholly tax-free in certain situations.

Checklist of taxable income items (cont'd)

- Taxes deducted from gross pay-3002
- Taxes paid
  - by buyer for seller-4083
  - by employer for employee-3203
  - by tenant for landlord-5102
- Tax-exempt securities, profit on sale-4001, 5130
- Tips-3020
- Treasure trove (found property)-5015
- Trust distributions*-1800 *et seq.*
- Trustees' fees-3086, 5015
- Trust income taxable to grantor-1845 *et seq.*
- U.S. obligations, interest on-3130
- Unrelated business income of exempt organizations-8000 *et seq.*
- Use and occupancy insurance proceeds*-4223
- Usurious interest-5123
- Vacation pay-3012
- Voluntary payment to employee's widow*-3256
- Wages-3001
- Wash sales of securities, profit on-4173
- Widow's statutory support allowance*-1817

¶ 261. Checklist of items you needn't report as income. The following list contains all of the common types of receipts which are usually nontaxable, and need not be reported, together with a reference to the paragraph at which they are discussed.

- Accident and health insurance premiums paid by employer-3247
- Accident insurance proceeds**-3241
- Alimony (if lump sum)**-7326
- Allowances received from husband, parent, etc.**-5015, 7300, 7339
- Annuity, employer's contribution to qualified trust, for benefit of employee-3401
- Annuity, part representing return of cost-5192
- Armed forces (see "Servicemen," "Veterans")
- Bad debts, recovery of, where they weren't previously used to offset income-5254
- Bequests (except where the bequest is income from property)-5040
- Board or lodging furnished by employer for his convenience-3281
- Cancellation of debt under bankruptcy proceeding-5280
- Capital or investment, payments representing a return of-5261
- Car pool payments (if not a business)-5015
- Casualty insurance reimbursements of above-normal living expenses-5015, 6623
- Child support payments**-5015, 7339
- Combat pay of servicemen**-3074
- Commissions advanced on drawing account as a loan which must be repaid-3095
- Compensation
  - sources outside U. S., nonresident alien-3079, 8122 *et seq.*
  - sources outside U. S., U. S. citizens working and residing abroad in certain camps**-8070
- Compromise of will contest, sum received in-5040
- Damages
  - alienation of affections-5260
  - breach of promise to marry-5260
  - capital asset, for impairment of-5261
  - good will, injury to-5261
  - libel or slander-5260
  - personal injuries-5260
  - wrongful death-5260
- Death benefit from employer, up to $5,000-3251
- Disability retirement payments**-3077, 3231
- Disaster relief payments, certain**-6623
- Disfigurement, loss of limb, etc., employer's payment for-3245
- Dividends
  - on unmatured life insurance policies-5093, 5171
  - on veterans insurance-3077 Education benefit programs set up by employer (for years beginning before '84-3211
- Employee death benefits (up to $5,000)-3251
- Employee expenses, reimbursement of**-1069, 5853
- Employer's payment on employee's health and accident insurance-3247
- Farm produce consumed by farmer-7561
- Foreign earnings of U.S. citizens**-8070
- Gifts-1816, 5040
- Government obligations, interest on state and local**-5131
- Group accident and health insurance premiums paid by employer-3247
- Group life insurance premiums paid by employer (up to $50,000 coverage)-3272
- Health and accident benefits, employee's**-3241
- Health and accident plans for employees, employer contributions to group or individual-3241, 3247
- Improvements by lessee**-5103
- Income earned abroad in certain camps**-8070
- Increase in value of property (not realized by sale, etc.)-4001
- Inheritances-1816, 5040
- Insurance proceeds
  - above-normal living expenses-5015, 6623
  - accident and health**-3241
  - life, on death of insured**-5175
- Interest income**-1275
- Interest on state or municipal bonds**-5131
- Juror's commuting allowance-5015

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* partly or wholly tax-free in certain situations.

** partly or wholly taxable in certain situations.

** partly or wholly taxable in certain situations.

Checklist of items you needn't report as income (cont'd)

Legacies-1816, 5040

Life insurance
- dividends on unmatured policies**-5171
- proceeds on death of insured**-5175

Living quarters
- furnished by employer for his convenience-3281
- officers and personnel, armed forces-3073

Lodging furnished for employer's convenience-3281

Maintenance and care paid to disabled seamen-3225

Meals furnished for employer's convenience-3281

Medical care, reimbursements for (except where expenses have been deducted)-3241, 3244

Medicare benefits
- basic-5015
- supplementary**-5015

Military and Navy personnel (see "Servicemen")

Minister, dwelling or rental allowance-3083

Old age and survivor's benefits, federal-5015

Parents' allowances to children-5015

Pensions, war veterans and families-3075

Personal injury, damage recoveries-5260

Per-unit retain allocations (by cooperative)-7631

Political contributions**-5015

Promissory notes, renewal-4031

Railroad retirement annuities and pensions (other than supplementary annuity benefits)-3208, 5015

Recovery of bad debts, expenses, losses, taxes, not previously used in offsetting taxable income-5250

efunds of tax not previously deducted with tax benefit-5255

imbursed employee expenses**-5853

imbursement for casualty loss**-6623

location payments**-5015

nts, uncollectible-5100

idence, gain on sale of, by person 55 or over**-4280

ricted stock**-3042 *et seq.*

gs bonds (Series E), interest on, until redeemed or exchanged-5143

arships and fellowships**-5033

ity deposits**-5015

emen (see also "Veterans")
- wances for quarters, subsistence, and uniforms-3073
- bat pay**-3074
- ility pay-3075
- y allowance paid by government-3073, 7
- mustering out pay-3073

Social security benefits, federal or state-5015

Soldiers' widows, pensions to-3077

Stock dividends or rights**-5070

Supper money received from employer-3288

Unemployment compensation benefits**-3006

Veterans (see also "Servicemen")
- autos received by disabled veterans-3077
- disability allowances and pensions-3077, 3231
- endowment policy proceeds-3077
- family allowances paid by government-3077
- government insurance proceeds and dividends-3077
- grants to disabled veterans for homes designed for "wheelchair living"-3077
- pensions (but retirement pay is taxable)-3075 *et seq.*

Will contest, compromise sum received in-5040

Workmen's compensation payments-5015, 5260

¶ 270. Checklist of deductible items for individuals. Deductions to individuals fall into two principal categories:

(1) Those deductible whether or not the individual itemizes his other deductions. They are deductible from gross income in arriving at adjusted gross income and are fully discussed at ¶ 1060 *et seq.*

(2) Those deductible only if the individual itemizes his deductions. They are subtracted from adjusted gross income in arriving at taxable income. Some of these deductions are also subject to further restrictions.

The following list contains all the usual deductions together with a reference to the paragraph at which they are discussed.

Alimony and separate maintenance (periodic payments)-7320

Apartment, residential, loss subletting-6371

Appraisal fees to establish tax deduction for charitable contributions and casualty losses-6116

Artificial teeth, limbs, etc.†-7161

Attorney fees paid by wife to secure taxable alimony-6102

Automobile accidents, property damage from*-6609

Bad debts†-6450

Bar examination fee (amortizable)-6341

Bond premium amortization-7370

Casualty losses not compensated by insurance*-6600

Cemeteries, nonprofit, contributions to†-7211

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ly or wholly taxable in certain situations.

* only amounts over $100 for personal-use property.

† within limits.

Checklist of deductible items for individuals (cont'd)

Charitable contributions†-7200
Charitable organization workers, voluntary, expenses actually incurred by†-7237
Chiropodist's fees†-7160
Chiropractor's fees†-7160
Church contributions†-7200
Civilian Defense Corps workers, expenses actually incurred†-7237
Damages resulting from casualty* (not compensated by insurance)-6600
Debts, uncollectible†-6450
Dental expenses†-7160
Doctor's fees†-7160
Drought losses†-6613
Drugs and medicines†-7162
Employees, see list at ¶ 272.
Eye glasses and examination fees†-7161
Fire losses not compensated by insurance*-6606
Flood losses not compensated by insurance*-6606
Fraternal organizations, contributions to†-7210
Gambling losses (to extent of gambling gains)-6563
Health and accident insurance premiums†-6147, 7151, 7163
Hurricane damage*-6606
Interest paid or accrued, including:
- discount on borrowed funds-7114, 7122
- finance charges, certain-7114, 7116
- installment purchase carrying charge†-7116
- "points" paid as additional interest to get home mortgage-7117
- "unstated" interest on certain deferred payment purchase contracts-2900 *et seq.*

Investors, see list at ¶ 271.
Job-hunting expenses (certain)-6321
Labor union dues and assessments for noninsurance purposes-6324
Loans, uncollectible†-6450
Losses (to extent not covered by insurance)
- automobile accidents*-6609
- bad debts†-6450
- burglary*-6651
- casualty*-6605
- drought*-6613
- embezzlement*-6651
- fire*-6606
- flood*-6606
- gambling (up to gambling gains)-6563
- hurricanes*-6606
- indemnity agreement†-6545
- ransom*-6651
- riot*-6612
- shipwreck*-6606
- storm*-6606
- theft*-6650
- vandalism*-6610

Medical expenses†-7150
Moving expenses (certain)-6334
Physician's hospital privilege fee (amortizable)-6341
Psychiatrists and psychologists, fees paid to†-7160
Residence
- casualty damage to (including trees, shrubs, etc.), to extent not covered by insurance*-6600
- rent while attempting sublet-6371

Returns, cost of preparing tax-6115
Separation payments (periodic) to wife-7300 *et seq.*
Storms, losses not covered by insurance*-6606
Sublease of residential house or apartment, rent while attempting-6371
Tax counselling, cost of-6115
Tax litigation expenses-6115
Tax returns, cost of preparing-6115
Taxes (see list at ¶ 273)
Theft, losses from*-6650
Veterans' organizations, contributions to†-7209

¶ 271. Checklist of deductions for investors. Investors can deduct expenses incurred to produce or collect income and to conserve, manage or maintain income-producing property. Anyone who owns securities, rented real estate, or other investments should not overlook the typical deductions listed below. They are often more widely available than many taxpayers realize.

If the investor does not itemize his deductions, the items in the following list are deductible only if they qualify as a deduction allowable in arriving at adjusted gross income (see ¶ 1060).

Accounting fees-6110
Advertising expenses-6121
Alterations and repairs-6211
Attorney fees-6093
Auditing expenses-6110
Bad debts-6450
Bookkeeping expenses-6110
Collection of rents, cost of-6282
Custodian fees-6301, 6303
Damages paid for breach of contract or lease-6267
Depreciation-5500, 6282
- buildings-5511
- furniture and fixtures-5511
- leasehold improvements-5525, 6423 *et seq.*

Exchange of asset, loss on-4003
Fire insurance premiums-6143
Franchise taxes-7017
Heat and light-6282
Interest†-7100, 7135
Investment counselling, cost of-6302

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* only amounts over $100 for personal-use property
† within limits

Checklist of deductions for investors (cont'd)

Leases
- amortization of improvements by lessee-6423
- amortization of lease acquisition costs-6421
- cost of cancelling burdensome-6428
- rentals paid-6371
- repairs made by lessee-6427
- taxes paid by lessee-6378

Legal expenses-6093
License taxes and fees (certain)-7017
Light and heat-6282
Losses (except to extent covered by insurance)
- abandonment of worthless interest in real estate-6550
- bad debts-6450
- demolition of building (certain)-6540
- forced sales-4013
- foreclosure-6582, 6591
- forfeitures-4026
- property, on sales of-4003
- property seized by government-4220
- tax shelter, at risk rule†-2605 *et seq.*

Maintenance of property, cost of-6211, 6282
Management expenses-6026
Mortgage foreclosure, loss on-6582, 6591
Moving expenses of machinery and equipment-6188, 6282

Night protection services-6282

Office rent-6305

Porter and janitor service-6282

Records, cost of keeping-6282, 6305
Redecoration costs-6219, 6220, 6282
Refuse and waste removal-6282
Repairs-6219

Safe deposit boxes, cost of-6304
Salaries-6282, 6305
Sales of assets, loss on-4003
Stationery and supplies-6305

Tax counselling, cost of-6115
Tax return, cost of preparing-6115
Taxes (state)-7013
- general sales-7081
- gross income-7013
- income-7013
- license fees, certain-7017
- motor fuel-7087
- personal property-7013, 7065
- real estate-7013, 7066
- stamp-7013
- stock transfer-7091
- transfer of property, on (except estate, inheritance, legacy, gift, etc.)-7091

Telephone and telegraph expense-6305
Traveling expenses-5653, 6282

Water rents-6282
Worthless bonds and stock-6525

¶272. Checklist of deductions for employees. Salesmen and other employees should not overlook the typical deductions listed below. But if they are not "outside" salesmen and they don't itemize their deductions, only the starred items (*), or *any* items for which they report a reimbursement, are deductible (see ¶1066).

Automobile expenses (allocable to business)*-5750 *et seq.*
- depreciation-5512, 5754
- garage rent-5752
- gasoline and oil-5752
- insurance on-5752
- parking fees-5753, 5755
- repairs-5752
- state inspection and registration fees-7017
- taxes-5752
- tolls-5753, 5755

Briefcase-6325
Christmas gifts to customers (limited)-5841
Conventions, expenses of attending (limited)–5702, 5735
Corporate officers, attorney fees of (certain)-6107
Dues
- business association-6194
- labor unions-6324
- professional societies-6325
- social or athletic clubs used primarily for business purposes-5805, 5808

Educational expenses (certain)-6350
Employment agency fees-6321
Entertainment expenses-5770
Fidelity bonds, cost of-6145, 6325
Gifts to customers and prospects (limited)-5841
Insurance premiums
- automobile (to extent of business use)*-5753
- bonds (fidelity, etc.)-6145, 6325
- malpractice-6146

Job-hunting expenses (certain)-6321
Labor unions, initiation fees, dues, fines, assessments for pension funds-6324
Laundry and cleaning (while traveling away from home)*-5660
Meals or lodging (while traveling away from home)*-5670
Membership in social and athletic clubs if primarily for business purposes-5805, 5808
Moving expenses (certain)*-3204, 6322
Outside salesmen, business expenses of*-1065
Passport fees for business travel-7017
Reimbursed expenses (if reimbursement included in income)*-5853
Repairs to auto used in business*-5752
Safety equipment-6330
Subscriptions to professional journals and magazines-6325
Tax return, cost of preparing-6115
Technical periodicals-6325
Telephone-6041
Tips (certain)*-5660

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† within limits.

* deductible in computing gross income.

Checklist of deductions for employees (cont'd)

Tools, cost of-6325
Transportation expenses*-5740
Traveling expenses*-5652, 5660
- baggage charges-5660
- fares-5660
- laundry and cleaning costs away from home-5660
- meals and lodging away from home-5660, 5670
- passport fees, business-7017
- sample rooms-5660
- taxis-5660
- telephone and telegraph-5660
- tips-5660

Tuition fees (certain)-6350
Uniforms, not adaptable to general wear-6330
Work clothes-6330

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* deductible in computing adjusted gross income.

¶ 273. Taxes deductible by individuals. All individuals who itemize deductions may deduct these taxes:

STATE, LOCAL AND POSSESSIONS OF U.S. TAXES-7013
  auto registration (to the extent based on value)-7017
  compensating use taxes (if complementary to general sales tax)-7085
  excise or individual sales (if complementary to general sales tax)-7084
  general sales (for amount generally allowed, see ¶ 274)-7081
  income (except where claimed as credit)-7013, 7014
  personal property-7013, 7014
  real property-7013, 7014

FOREIGN TAXES-7015
  income, war profit, excess profit (unless claimed as credit)
  real estate

If paid or accrued in connection with business or for the production of income, individuals can also deduct these taxes:

FEDERAL TAXES-7012
  excise
  import duties
  liquor
  railroad retirement (employers)
  social security (employers)
  stamp
  tobacco
  unemployment (employers)

STATE AND LOCAL TAXES-7013, 7017
  admission taxes
  auto registration
  beverage taxes
  cigarette taxes
  cosmetic taxes
  driver's license fees
  excise taxes
  liquor taxes
  mortgage taxes
  occupancy taxes
  stock transfer taxes
  tobacco taxes
  transfer taxes (except estate, inheritance, legacy, succession and gift taxes)
  unemployment

These taxes are not deductible:

FEDERAL TAXES-7012
  cable message, tax on personal
  estate (except where attributable to after-death income)
  excise (on items for personal use)
  gift
  import duties (on items for personal use)
  income
  railroad retirement (employees)
  self-employment
  social security (employees and household employers)
  telephone and telegraph messages, tax on personal
  transportation of persons by air, tax on personal

FOREIGN INCOME TAXES (to the extent taken as a tax credit)-7015

FOREIGN PERSONAL PROPERTY, SALES AND GASOLINE TAXES (unless in connection with business or production of income)-7015

STATE AND LOCAL TAXES, except those listed above-7013

¶ 274. Deduction for state sales taxes. If a taxpayer itemizes his deductions, the amounts shown on the tables may be used as the general sales tax to be deducted. However, if he can prove that he paid a larger amount, he can deduct that larger figure. Sales taxes for purchase of automobiles and certain other costly items are also not included in the table. If you bought a car, plane, boat, mobile home or materials for home construction, add the sales tax on that purchase to the figure in the table to get the full deduction to which you are entitled.

For a full discussion of state sales taxes, see ¶ 7080.

§ 275. Checklist of nondeductible items.

► The following aren't deductible for income tax purposes:

Accounting and auditing expenditures for personal matters-6110
Acquisition of property or assets, expenses incidental to-6063 *et seq.*
Adoption costs (except as charitable contribution)-7221
Alimony payment in lump sum, generally-7321
Allowance for support of minor children-7339
Architects' fees (nonbusiness connected)-6063
Attorneys' fees
- acquiring property-6095
- perfecting title to property-6095
- personal matters-6095

Automobile expenses, personal-5753
Breach of promise to marry, damages for-6267
Bribes
- illegal-6251
- Medicare-6253

Building replacement, repairs and additions of a capital nature-6063, 6216 *et seq.*
Burglar alarms, cost of installing-6070
Carfare for traveling between home and place of employment-5742
Child support payment-7339
Clothing, food and personal entertainment-5776
Commissions paid on purchases of securities-6308
Commuting expenses-5742
Contingency reserves-2604
Contingent liabilities-2621
Contributions, charitable, to unqualified organizations-7205
Contributions, charitable, use of property-7256
Corporation, expenses of acquiring control and management (with some exceptions)-6068, 6069
Customs and import duties, personal-7012
Damages resulting from personal liability suits-6267
Debts of another, voluntary payment of-6010
Decrease in value of property not disposed of-4001
Depreciation of assets of indeterminate useful life-5513
- nonbusiness property not held for production of income-5511

Developing and improving property, cost of-6063, 6216, 6217
Diaper service-7161
Divorce, attorneys' fees and other expenses; but fees paid to secure taxable alimony or tax advice are deductible-6101 *et seq.*
Driver's license, personal-7017
Dues to nonbusiness organizations, personal-5805, 5806, 5808
Employment, certain costs of seeking-6321
Entertainment, personal-5776
Entertainment facilities (certain) -5800
Exempt income, expenses related to-6313
Family and living expenses-5776
Farms conducted for pleasure, deductions in excess of income (some exceptions)-6520, 7503
Fines and penalties imposed by law (with minor exceptions)-7019
Food, clothing and personal entertainment-5776
Foreclosure of personal residence, owner's loss on-6590
Funeral expenses-7161
Gambling losses in excess of gains-6563
Gambling losses, when taxpayer doesn't itemize-6563
Gasoline taxes unless for business use-7087
Gifts to individuals (unless as limited business expense)-5841
Good will, cost of acquiring-6073
Hobby, deductions of (some exceptions)-6005, 6520
Home, expenditures for (nonbusiness connected)-6214, 6284
Illegal business
- expenses of (not directly connected with the production of income)-6255

Import duties, federal, personal-7012
Improvement and development of property (except mineral property)-6061, 6063, 6216, 6217
Influencing legislation (except certain lobbying expenses connected with business)-6261 *et seq.*
Insurance premiums, personal (except certain health insurance)-6131, 6141, 7151, 7163
Interest converted into principal obligation through renewal or larger loan (by cash basis taxpayer)-7122
Interest on loans to buy single premium life insurance or annuities-7137
Interest on loans to carry certain life insurance, annuities or endowment contracts-7138
Interest, prepaid but not accrued-7122, 7123
Interest where no obligation to pay-7101
Investments, cost of-6061 *et seq.*
Kickbacks, illegal-6253
Law books, of long useful life, cost of-6340
Lease, cost of acquiring-6421
Legal expenses, personal (except for tax matters)-6090
Libel and slander suits (nonbusiness), attorney's fees and damages paid for-6100, 6267
Life insurance, personal, premiums on-6130
Living and family expenses-5776
Lobbying expenses (except certain expenses in connection with business)-6261 *et seq.*
Loss
- anticipated income (from prospective crop, etc.)-4001
- between "related" taxpayers-4130
- hobby or not-for-profit activity (some exceptions)-6520 *et seq.*

- wash sales-4170

Machinery or equipment for business-6061 *et seq.*
- cost of acquiring-6063
- replacement or additions of a capital nature-6063, 6212 *et seq.*

Marital litigation, most expenses of-6101
Military uniforms (but reservist's uniforms and fatigue uniforms deductible)-6333
Modernization expenditures of a capital nature-6218, 6220
Mortgage insurance premiums paid by mortgagor of residence property-6141
Moving expenses, personal (except in connection with job at a new location)-6320
New building, machinery and equipment-6061, 6063
Parking meter deposits, except as business expenses-7017
Penalties and fines, with minor exceptions-6259, 7019
Permanent improvements-6061, 6216
Personal expenses-6003, 6032
Points paid for lender's services-7117
Political contributions--6266
Pre-nuptial property settlements-7311
Professional books or instruments with long lives-6340
Propaganda expenses-6264
Property improvement and development, cost of (except mining and oil and gas property)-6061, 6063, 6216, 6217
Property or property rights, cost of acquiring-6061 *et seq.*
Recreation, expenses incurred in pursuit of-6031
Reduction in value of property not realized by sale, exchange or abandonment-4001
Rent
- for residence-6371
- which is really payment on purchase price-6400 *et seq.*

Repairs to residence-6214
Replacement and restoration of buildings-6215 *et seq.*
Reserves for contingent liabilities-6151
Residence
- loss on sale of-4260, 6515
- repairs to-6214

Selling expenses incurred in sale of capital asset (reduce amount realized)-4082
Separation agreement, lump-sum payments under-7321
Servants, domestic, wages paid to (except as medical or dependent care payments)-3111, 7164, 7358
Slander and libel (nonbusiness), damages paid for-6267
Social security tax payments, federal, by employees-7012
Sport, expenses incurred pursuing-5776, 6520
Stock exchange seat, cost of-6310
Stock and bonds, commissions on purchases and sales of, by trader or investor-6308
Stockholders' contributions to corporation-6068, 6076
Tax penalties, with minor exceptions-6259, 7019
Taxes, certain (¶ 273)
Title to property, cost of defending or clearing-6075, 6095
Traveling expenses in search of new employment and between home and place of business-5665, 5742
Tuition fees (except work connected)-6350
Uniforms suitable for general wear-6330
Union assessments for accident, death and sick benefits-6324
Vacation house rental, loss on (with some exceptions)-6521
Wash sale losses (except dealers)-4170
Water and sewer rents for personal residence-7017
Work clothes suitable for general wear-6330

Investment Credit - Sec. 38 Property

Automotive test tracks and facilities
Avacado trees
Bank vault doors
Beverage bars
Blast furnaces
Boiler facility
Books
Booths, seating
Broadcasting towers
Burner and preheater structures - cement kiln
Car-shifting locomotives
Carpeting
Carpeting installed using pressure-sensitive mesh material - must be depreciable and have a useful life of three or more years.
Citrus trees
Coal car dumpers
Coal transloading facility - transfer towers
Coin operated vending machines, washers and dryers
Communication satellites
Compressor station structures
Computer information tapes and films
Computers using reconstructed circuit boards
Construction-site trailer
Control room structures
Corn cribs
Data-processing equipment acquired by lease
Display racks
Display shelves
Drain tiles for field irrigation
Drain tiles for pasture
Drive-up tellers' windows in banks
Dry-kiln and control room structure
Dry-kiln structures
Electric generating equipment installed in shopping center
Electrical connections
Electroplates
Elevators
Engraved plates necessary to produce hardcover and softcover books
Escalators
Fences and gates contructed around approach sections of a railroad tunnel
Fences used to confine livestock
Fences used to protect wrecking business
Fire extinguishers
Floatable docks and movable partitions
Floor coverings
Gas pipelines
Gas storage tanks
Gasoline pumps
Gasoline storage tanks
Golf course water pump and portable sprinklers
Grain storage bins
Greenhouse

Grocery counters
Hay storage facility for livestock
Henhouse or chicken coop
Hog-raising facility
Hydraulic car lifts
Hydroelectric power plant structure housing generator and propulsion turbine
Identity symbols, building interior and exterior
Laboratory facilities
    Air handling units
    Refrigeration units
    Steam boiler
    Temperature controls
    Variable power outlets
Leased equipment
Liquefied petroleum gas equipment
Livestock
    Cattle
    Fur-bearing animals
    Goats
    Hogs
    Mink
    Sheep
Logging truck roads and log dumps
Marine terminal facility - electric distribution system, bituminous paving with paint markings, concrete dolly strips and bumpers, guard rails, a marginal pier (including dredging for construction), dredging of a river bottom for ship channels and gantry crane foundations
Mechanized conveyors
Merchandise huts or units
Milk storage refrigerator and freezer structures
Mobile homes (more than 50% transient use)
Mooring cell
Motor vehicles
Movie and television films and tapes
Movie negatives
Movie negatives (optical and sound portions)
Mushroom houses
Neon and other signs
Night depository facilities in banks
Nuclear electric generating unit
Office equipment
Offset-lithography films
Offshore drilling equipment
Offshore drilling rigs
Oil derricks
Oil pipelines
Oil storage tanks
Oil storage terminal facility's fuel oil blending property
Orchards and groves
Ornamental fixtures
Ornamentation
Outdoor advertising signs

- Partitions, movable and removable
- Parts and components of public utility property
- Paved barnyards
- Pictures, wall decoration
- Piping machinery
- Piping system used for recycling of cooling water
- Plumbing connections
- Pollution control facility, unamortized
- Potato storage facility
- Power machinery
- Printing presses
- Production machinery
- Propane gas storage tanks, water heaters, and water softeners
- Propane gas storage tanks, water heaters, and water softeners (leased)
- Property used for lodging
- Property used in exploration, development, removal, or transportation of outer Continental Shelf Resources
- Property used in U.S. possessions
- Qualified timber property, portion of amortizable basis
- Railroad communications equipment
- Railroad rolling stock
- Railroad track replacements
- Railroad tracks
- Raised floors and catwalks
- Record vault doors
- Refinery equipment - concrete fire-dike walls, with valves, piping and prefabricated walkways
- Refrigerated portion of building
- Refrigeration equipment - condensers, compressors, accumulators, coolers, pumps and connecting pipes, and electrical wiring and switch gear
- Refrigerators
- Reservoir for use with electric generating plant
- Reusable containers
- Roadways within manufacturing complex
- Shipping containers
- Ships (marine vessels)
- Silos
- Single-purpose livestock and horticultural structures
    - Greenhouses
    - Hog-raising facility
    - Mushroom houses
    - Poultry houses
- Ski lift equipment
    - Cable support towers
    - Passenger ramps
- Soft drink vending machine
- Special lighting
- Steam-generating electric power plant
- Storage facilities (used in farming)
- Storage facility for grain or other commodities by farmers (or non-farmers who buy, store and sell for their own accounts)
- Submarine telephone cables
- Telephone poles
- Test stands
- Testing equipment
- Tin (Molten)
- Transoceanic communication cable systems
- Transportation equipment

Trucking terminal improvements
Vending machines
Vessel used in foreign commerce
Vessels, acquired (not contructed)
Voice communication systems
Walk-up tellers' windows in banks
Wall panel inserts
Wall-to-wall carpeting
Water pumps
Water wells
Wells providing water for farm livestock
Wind tunnels

PROPERTY NOT QUALIFIED FOR INVESTMENT CREDIT

- Air-conditioning system
- Airport hangars
- Apartment houses
- Barns
- Baseball player contracts
- Billboards
- Bottles, reusable
- Bus stations
- Ceilings
- Chimneys
- Concrete pavement in gas stations
- Concrete trenches in laboratory
- Craneway structure
- Doors
- Drive'up bank teller's booth
- Electric wiring
- Energy plants
- Factory buildings
- Fire escapes
- Fire protection system
- Floors
- Garages
- Gas-fired heaters
- Giant amusement slides
- Heating system
- Hot water system
- Intangible property
    - Copyrights
    - Patents
    - River bottom dredging
    - Subscription lists
- Laboratory "clean" rooms
- Lighting fixtures
- Livestock
    - Horses
- Loading docks
- Lobster pound
- Office buildings
- Outdoor lighting facility
- Paneling
- Partitions, permanent
- Paved parking areas
- Plumbing and plumbing fixtures - sinks and bathtubs
- Polystyrene insulation
- Property used by governmental units
- Property used by tax-exempt organizations, other than in an unrelated trade or business
- Property used for nontransient lodging: Beds, Furniture, Laundry facilities, Lobby furniture, Mobilhomes, Office equipment, Ranges, Refrigerators, Swimming pool facilities
- Property used outside the United States except as indicated
- Quonset-type structures
- Railway stations
- Recessed lighting
- Refrigerated storage structure as warehouse

Ski lift control houses
Sports stadium
Sprinkler systems
Stables
Stairs
Stores
Swimming pool facilities
Tiling
Trailer park launderette
Walls
Water coolers
Windows

PROPERTY ELIGIBLE FOR ENERGY TAX CREDIT

PRINCIPAL RESIDENCE

- Eligible payors
  - Condominium unit owners, allocable share
  - Cooperative housing association stockholders, allocable share
  - Lessees
  - Owners
- Energy-saving components
  - Caulking
  - --Building joints
  - --Exterior doors
  - --Windows
  - Flue opening modifications--dampers
  - Furnace ignitions systems replacing gas pilot lights, electrical or mechanical
  - Furnace replacement burners
  - Insulation (figerglass, cellulose, etc.)
  - --Ceilings
  - --Exterior walls, surface of cavity installation
  - --Floors
  - --Forced air ducts
  - --Hot, bare pipes
  - --Hot water heaters, exterior installation
  - --Roofs, roof decks
  - --Steel doors
  - --Storm windows
  - Meters displaying energy usage costs
  - Storm or thermal doors
  - Storm or thermal windows
  - Thermostats
  - --Automatic energy-saving setback thermostat
  - --Clock thermostat
  - Weatherstripping
  - --Exterior doors
  - --Windows
- Renewable energy source equipment
  - Geothermal energy equipment
  - --Wells
  - Solar energy equipment, active and passive
  - --Heat exchangers
  - --Plastic solar collector
  - --Rock beds
  - --Solar collectors
  - --Thermostats
  - Wind energy equipment
  - --Windmills

BUSINESS ENERGY PROPERTY

- Alternative energy property (using other than oil, natural gas, and their products)
  - Boiler
  - Coal feedstock equipment (other than for coke or coke gas production
  - Combustor burner
  - Conversion equipment (converting alternate substance into synthetic fuel other than coke or coke gas)

- Equipment used in connection with electricity generated by geothermal power (excluding the electrical transmission state)
- Equipment related to alternative energy property
  - —Pollution control equipment, statutorily required
  - --Unloading, transfer, storage, reclamation and preparation equipment
- Modification equipment (at least 25% substitution of oil or natural gas with alternate substance in existing equipment)

Equipment for producing natural gas from geopressured brine
Recycling equipment, solid waste
Shale oil equipment, oil production and extraction
Solar or wind energy property
Specially defined energy property

- Automatic energy control system
- Combustible gas recovery system
- Economizer
- Heat exchanger
- Heat pipe
- Heat wheel
- Preheater
- Recuperator
- Regenerator
- Turbulator
- Waste heat boiler

ARMED FORCES PERSONNEL

Persons in the Armed Forces are subject to the same income tax provisions, so far as computing the tax is concerned, as other individuals. The purpose of this list is to compile items peculiarly applicable to servicemen. For general items, see other checklists in this division.

Taxable Items

Compensation for services in armed forces:
- Base pay
- Extra pay for flying service
- Extra pay for foreign service
- Extra pay for submarine service
- Longevity pay
- Mileage allowance (less expenses for self)
- Quarterly allowances even though recipient retired from Army
- Readjustment (to civilian life) allowance

Interest on B.I. life insurance dividends left on deposit with Veterans Administration
Payments from former employer
Per diem allowances in lieu of subsistence and mileage allowances while in official travel status or on temporary assignment, in excess of actual expenditures
Personal money allowances for high-ranking officers
Reenlistment bonus
Retirement pay
Severance (nondisability) and readjustment pay
Travel pay to discharged soldier
Voluntary allotments

Nontaxable Items

Allowance ofr transportation of family on change of station
Benefit payments under federal laws relating to veterans
Bonus payment, state
Cash received in lieu of subsistence and quarters (family allowance)
Combat pay--pay earned by enlisted men and first $500 monthly pay of commissioned officers
Combat zone leave payments
Compensation earned while in prisoner of war, missing in action, or detained status
Disability pay, except to extent based on length of service
Meal allowances
Mustering-out payments
National Service Life Insurance dividends
Noncombat sick payments (active duty payments) limit of $100 per week
Portion of retirement pay (or retainer pay) used to provide survivors' annuities under retired serviceman's family protection plan
Subsistence
Tuition payment and subsistence under Servicemen's Readjustment act
Uniform allowance
Veterans' disability pensions
War Risk Insurance proceeds
Widows' pensions

Deductible Items except as otherwise noted

Aiguillettes
Campaign bars
Cap devices
Chin straps
Contributions to Army Company Funds
Corps devices
Educational expenses (effect on deductible amount of nontaxable benefits received from V.A.)
Epaulets
Fatigue uniforms, cost and maintenance (not reimbursed)
Gilt buttons
Gold lace
Recruiting officer's unreimbursed traveling expenses
Reservists' local transportation expenses (in getting from one business location to another)
Reservists' uniforms and maintenance expenses (not reimbursed)
Sword
Unreimbursed travel and transportation expenditures in course of employment

Nondeductible Items

Automobile upkeep
Damage to household equipment in moving
Dues to officers' club
Expense of visiting home
Fines (as distinguished from forfeited pay) imposed by courts-martial
Law school expenses of artillery officer
Mess bills on ships away from home port
Naval officer's subsistence expense over-allowance while on permanent duty at sea
Special dress uniforms worn at cermonial occasions

FARMERS

Income Items

Agricultural program payments

Breeding fees

Commodity Credit Corp. loans (if election is made)

Fire or storm insurance proceeds on crops

Groceries or merchandise received in exchange for farm products

Hail and fire insurance proceeds on growing crops

Hire of teams, machinery, etc.

Livestock sold (sale of culls results in capital gain)

Patronage dividends (unconstitutional)

Per-unit retain certificates (qualified and nonqualified)

Produce sold

Reimbursement for livestock or other property destroyed by the government

Rents received in crop share (income when shares are sold)

Sugar Act receipts

Wheat stabilization and feed grain programs payments

Work off farm

Nontaxable Items

Produce consumed by farmer and family

Deductible Items

Advertising of farm products

Animals (not inventoried) purchased and lost by death or destroyed because of disease

Automobile upkeep

Bad debts

Baling, amounts paid for

Board of hired labor (purchased)

Breeding fees

Cleaning wells (to extent used in business)

Clearing land, capital expenditure prior to 1962; thereafter election may be made to treat as expense

Combining, labor hired for

Cost of grinding, mixing, or processing of feed

Crop insurance premium

Depreciation of buildings, improvements to machinery and equipment of a permanent nature

Depreciation of livestock acquired for work, breeding or dairy, not included in inventory

Depreciation of orchard

Electricity

Feed costs

Fence repair and maintenance

FARMERS

Deductible Items (Continued)

Fertilizer cost (if effect extends over a period of years, an election required)

Freight, yardage, express and trucking

Gasoline, other fuel and oil for farm business

Ginning, labor hired for

Insurance on farm property (except dwellings)

Interest on farm mortgage or other obligation

Liming farm lands (if effect extends over a period of years)

Livestock killed by state or federal authorities, cost less depreciation

Losses--see Checklist

Machine hire

Machinery repair and maintenance

Marketing quota penalties

Pasture rental

Rations furnished laborers or sharecroppers

Rent paid in cash

Rent paid in crops (amounts expended in raising the crop only)

Repairs and maintenance (except on dwelling)

Salaries for household work in boarding and housing laborers

Seed and plants purchased

Silo filling, labor hired for

Soil and water conservation in respect of land used in farming, expenditure for

- Contour furrowing
- Brush elimination
- Diversion channels, construction, control and protection
- Drainage district assessments for
- Drainage ditches
- Earthen dams
- Grading
- Leveling
- Outlets
- Ponds
- Terracing
- Windbreaks, planting of

Storage and warehousing

Supplies purchased (twine, spray, material, poisons, disinfectant, cans, barrels, baskets, egg cases, bags, etc.)

Taxes--see Checklists

Telephone, farm business

Terracing land to prevent erosion

Tools of short life, cost of (shovels, rakes, etc.)

Travel expenditures (on farm business)

Veterinary and medicine expenditures for livestock

Wages of hired labor

Water rent

Nondeductible Items

Animals raised by farmer and lost by death

Automobile cost (pleasure use)

Board of hired labor (produce raised on farm)

Building cost

Capital expenditures

Depreciation on dwelling or personal or household equipment

Feed grown on farm

Household expenses

Loss of prospective crop (frost, storm, flood or fire)

Machinery cost

Repairs on dwelling or personal or household equipment

Shrinkage or deterioration of stored products

Soil and water conservation expenditures paid or incurred for the purchase, construction, installation or improvement of depreciable masonry, tile, metal or wood structures, appliances and facilities such as tanks, reservoirs, pipes, conduits, canals, dams, wells and pumps

Special taxes and assessments as levied on levee drainage, irrigation, etc.

Trees--cost of planting and cultivating

Upland cotton acreage allotments, cost of

Value of farmer's own labor, or that of wife or dependent minor children (except for minor children in employee relationship)

OLDER TAXPAYERS

Income Items

Annuities, supplemental under Railroad Retirement Act

Annuities with exceptions

Bonus

Commissions

Dividends

Fees

Gain on sale of residence

Gross income from business

Interest on deposits, bonds, notes

Interest on life insurance proceeds

Rents

Salary

Self-employment income

Self-employment plan lump-sum distributions

Stock dividend--disproportionate distribution

Stock dividend--distribution in lieu of money

Stock dividend--distribution of common and preferred to different shareholders

Stock dividend--most dividends of preferred stock

OLDER TAXPAYERS

Income Items (Continued)

Stock dividend--some distribution of convertible and preferred stock

Tips

Wages

Exclusions

Annuities with exceptions

Blind, aid to

Disability benefits under employer-financed plan

Disability payments under Social Security

Disability retirement payments

Dividends--stock

Dividends--$200 ($400 on joint return)

Employee death benefits

Endowment contracts

Foreign income, certain

Gain on sale of residence

Gifts, bequests, inheritances

Health care payments

Insurance benefits under Social Security--old age
- o Wife and husband
- o Widow(er)
- o Mother
- o Parent

Insurance, $1000 interest paid to deceased's spouse

Insurance, life

Interest on municipal bonds

Medical care reimbursements under employer-financed plan

Medicare payments

Old age assistance

Railroad retirement benefits

Salary continuation payments--widow(er) $5,000

Sick pay under employer-financed plan

Social security

Stock split

Veterans Administration benefits

Wages--sickness or injury continuation payments

Welfare pyaments

Workmen's compensation

Workmen's compensation--personal injuries or sickness

OLDER TAXPAYERS

Deductible Items and Services

Artificial limbs, cost of

Condominium & cooperative
  - Interest
  - Taxes

Dental expenses

Diagnosis, cure, mitigation, treatment or prevention of disease or for the purpose affecting structure of function of body--cost of

Exemption--blindness, personal, 65 years or older

Eyeglasses, cost of

Hearing aid, cost of

Hospital and nursing expenses

Insurance--premiums for medical care

Insurance--premiums prepaid after age 65

Medicine and drug costs; also see ¶ 57, Miscellaneous deductions, "Medical, dental and hospital expenses")

Therapy expenses

Transportation expenses--primarily for and essential to treatment

Nondeductibles

Attorney's fees--property settlement and will preparation

Disabled, physically--expenses of transportation to and from place of employment

Funeral expenses

Life insurance premiums

Medical, dental & hospital expenses less than 3% of adjusted gross income

Medicines and drugs, costs less than 1% of adjusted gross income

Passport fees, unless paid for business purposes

Taxes--Federal income, estate or gift and State inheritance

Credits

Credit for elderly

AUTOMOBILE EXPENSE DEDUCTIONS

Deductible Whether Automobile Used for Business or Pleasure

Interest on money borrowed in purchasing car

Loss and damage not compensated by insurance, due to casualty (including collision), even though:

(a) due to faulty driving of taxpayer or other person operating automobile, if not due to willful negligence

(b) caused by fault driving of driver of car collided with

Loss and damage not compensated by insurance, due to fire

Loss and damage not compensated by insurance, due to theft

Deductible Only if Automobile Used for Business

Automobile club membership

Chauffeur's salary

Depreciation

Driver's license

Garage rental charges

Gasoline

Insurance

License fees

Loss on sale of automobile

Lubrication

Oil

Parking

Repairs

Tires with life of less than one year

Washing

Not Deductible

Cost of automobile (unless business car is worn out within year)

Damage suit for negligent driving of pleasure car, expense of defending

Fines for violating traffic laws

Loss on trade-in

Travel expenses between home and place of business

LOSSES

Deductible Losses

These items are deductible to the extent not compensated for by insurance or otherwise. Personal casualty and theft losses are subject to a $100 floor. This means that a personal casualty or theft loss is deductible only to the extent that the amount of the loss exceeds $100. In the case of multiple personal losses from the same casualty, the $100 floor applies to the total loss sustained.

Automobile, damage from collision

Automobile, damage from icy pavement or freezing motor

Demolition, buildings

Disaster losses

Drought

Earthquake

Earthslide

Experiements

Fire

Flood

Forfeiture of part of purchase price (transaction for profit or business)

Gambling losses, to extent o gains only but if nonprofessional, these losses deductible only from adjusted gross income

Guaranty payments if in business or transaction entered into for profit

Hedging transactions in commodity futures

Hurricane

Patent infringement, judgment paid for

Residence damaged by:
- Blasting
- Boiler bursting
- Fire, flood, or sinking of land
- Termites, sudden invasion by
- Trees and shrubs damaged by storm or drought
- Water pipes freezing and bursting

Sale of property (if acquired or held for profit)

Shipwreck

"Sonic boom" from airplane

Storm

Theft

Timber loss from fire, insects, etc.

Transactions entered into for profit though not connected with trade or business

Worthless securities (as capital loss)

Nondeductible Losses

Anticipated income

Automobile trade-in, personal

Clothing damaged by moths

Family sales or exchange losses

Household goods damaged in storage or transit

Residence, sale of property used exclusively as

Surrender of insurance policy

Wash sales

Well contamination

ADJUSTED GROSS INCOME DEDUCTIONS

Deductions in Arriving at Adjusted Gross Income

In computing adjusted gross income only deductions which would be allowed under Code Sec. 62 may be considered. These are the usual "business type" deductions. Following is a tabulation of deductions available to individuals, with and indication as to the extent to which they are allowed to be subtracted from gross income in arriving at adjusted gross income.

Deduction	Extent allowed for adjusted gross income
Alimony payments	In full
Trade or business expenses	In full except to employees as such. Employees are allowed expenses of travel, meals and lodging while away from home on business, transportation expenses in business, outside salesmen's expenses. Other expenses, but only if reimbursed.
Interest	Only on debt attributable to trade or business, or to property held for production of rents or royalties.
Taxes	Only if attributable to trade or business or on property held for production of rents or royalties. For state taxes on net income derived from a trade or business.
Interest and taxes paid to withdrawal of funds from time savings accounts or deposits.	In full in the year in which the loss occurs.
Certain required repayments.	In full. Deduction is permitted for repayment to certain exempt trusts of supplemental unemployment compensation benefits received from such trusts if repayment is required because of the provisions of U.S.C. §2291 or 2292.
Losses in a trade or business	In full
Losses incurred in transactions entered into for profit	Only if the property was held for production of rents or royalties or if a loss is treated as one from a sale or exchange of property.
Losses from theft or casualty	Not deductible except as an offset to gains under Code Sec. 1211. If attributable to a trade or business, or to rental or royalty property, then deduction is under Code Sec. 165 (c)(1) or (2)

Deduction	Extent allowed for adjusted gross income
Wagering losses	Only if from a gambling business, and then only to the extent of wagering gains.
Losses from a sale or exchange of capital assets	In full, subject to capital loss limitations
Losses on stock or stock rights becoming worthless	In full, subject to capital loss limitations
Bonds, debentures, etc., becoming worthless	In full, subject to capital loss limitations
Business bad debts	In full, except none for bad debts attributable to services as an employee
Non-business bad debts	In full, subject to capital loss limitations
Depreciation on business property	In full
Depreciation on property held for production of income	Only if held for production of rents or royalties, or held by a life tenant or a trustee (to the same extent as allowed to an income beneficiary).
Charitable and other contributions	Not deductible for this purpose (will be deductible to a limited extent in 1982 and 1983).
Amortizable bond premium	Not deductible for this purpose.
Net operating loss deduction	In full
Circulation expenditures	Deductible to extent not chargeable to capital account
Research and experimental expenditures	In full, or amortized, at the taxpayer's election, if connected with a trade or business.
Reforestation expenses	In full.
Non-trade or non-business expenses	Only on property held for production of rents or royalties.
Medical, dental, etc., expenses	Not deductible for this purpose
Interest forfeited on premature cooperative housing apartment	Not deductible for this purpose.

Deduction	Extent allowed for adjusted gross income
Employee's moving expenses incurred as incidence to commencing new work in new location, provided certain requirements are met.	In full, subject to rule on reasonableness. If reimbursed by employer, amount must be included in income.
Retirement savings deduction.	Limited to the lesser of $1,500 or 15% of the individual's compensation, disregarding any portion thereof which may be excluded from his gross income.
Lum-sum distribution from pension plans taxed under Code Sec. 402(e)	Ordinary income portion of lum-sum distribution for the taxable year but only to the extent included in the gross income for such a year.
Contrubutions by employer to employee's trust, etc.	In full
Depletion	In full.
Mine development expenditures	Deductible according to election by taxpayer.
Mine exploration expenditures	Unlimited deduction, fi elected by taxpayer, but subject to recapture when mine reaches producing stage.
Deductions of beneficiary, etc., on account of decedent's deductions	Deductible to the extent they would have been deductible by decedent.
Excess foreign living costs	Limited to amount of foreign source earned income reduced by other earned-income-related deductions and amounts excluded from income such as employer-furnished meals and lodging.
Long-term capital gain	Deductible to extent of 60% of the excess of long-term capital gain over net short-term capital loss.

1981

WORKSHEETS

Tax Computation Worksheet

(Do not use if you figure your tax on Schedule G or Form 4726.)

1. Taxable income from Form 1040, line 34 . ______
2. Tax on the amount on line 1 from Tax Rate Schedule X, Y, or Z . ______
3. Rate Reduction Credit. Multiply the amount on line 2 by .0125 . . . . . ______
4. Subtract line 3 from line 2. Enter here and on Form 1040, line 35 . . . . . . ______

Do not file—keep for your records.

Pension/Annuity

1a. Enter your cost . . . . ______
b. Cost recovered in prior years . . ______
c. Subtract line 1b from line 1a . . ______
2. Amount received this year. Also, enter this amount on Form 1040, line 16a . . . . ______
3. Amount on line 2 that is not taxable (but not more than line 1c) . . . . ______
4. Taxable part (subtract line 3 from line 2). Enter here and on Form 1040, line 16b . . . . ______

(Keep a copy of this worksheet for your records)

Worksheet for figuring taxable All Savers Interest

1. Interest received from All Savers Certificates. ______
2. Total interest and dividends from your federal return, line 8c. ______
3. Add lines 1 and 2. ______
4. Interest from U.S. Government included in line 2 (example—E and H bonds). ______
5. Line 3 minus line 4. ______
6. Fill in your exclusion: $200 ($400 on a joint return). ______
7. Line 5 minus line 6. ______
8. Taxable All Savers interest: the lesser of line 1 or line 7. ______

1. Total unemployment compensation from Form(s) 1099–UC . . ______
2. If you received an overpayment of unemployment compensation in 1981 and repaid it in 1981, enter the repayment here. Also write "repayment" and the amount you repaid in the margin of Form 1040 to the left of line 19a . . . . ______
3. Subtract line 2 from line 1 . . ______
4. Enter the total of the amounts on Form 1040, lines 7, 8a through 18, and 20 (do not include any unemployment compensation in this figure) . . . ______
5. Add lines 3 and 4 . . . . . . ______
6. Enter the total of the amounts shown on Form 1040, lines 22 through 27 and 29 . . . . ______
7. Subtract line 6 from line 5 . . ______
8. Enter { $20,000 if you checked box A or D, or $25,000 if you checked box B, or –0– if you checked box C } . ______
9. Subtract line 8 from line 7. If zero or less, stop here and enter –0– on Form 1040, line 19b . ______
10. Enter one-half (50%) of the amount on line 9 . . . . . . ______
11. Taxable unemployment compensation. Enter the amount from line 3 or line 10, whichever is smaller. Also enter on Form 1040, line 19b. . . . . . . ______

Unemployment

IRA / SEP

Also enter the number which identifies your situation in the code space on line 24.

One individual IRA	1
Two individual IRAs	2
One individual IRA and one spousal IRA . . .	3
One SEP	4
Two SEPs	5
One individual IRA and one SEP . . .	6

Worksheet

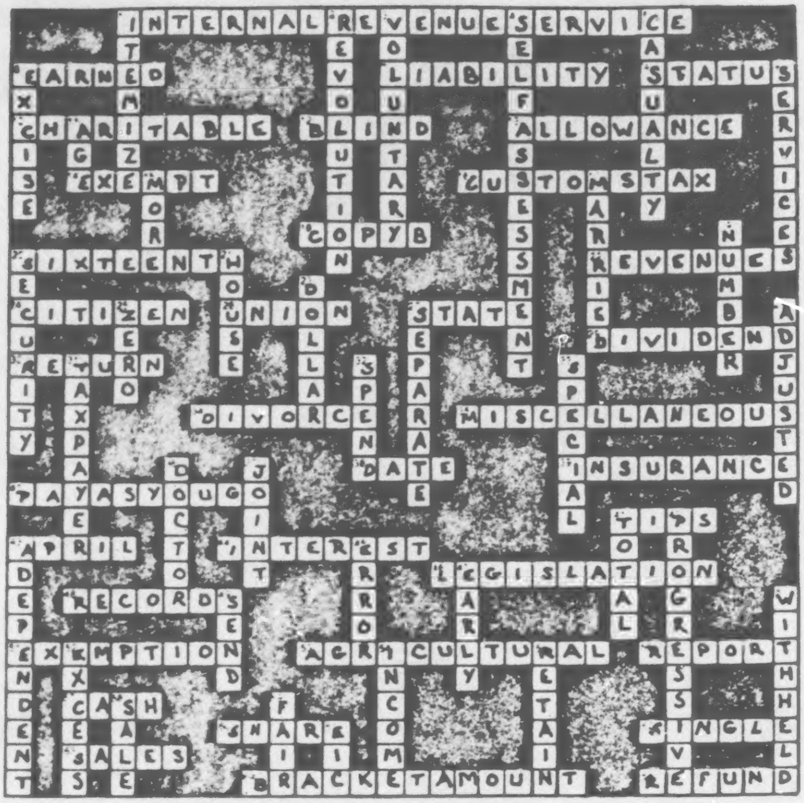
1. Amount paid to your IRA. (Do not include rollovers or your employer's SEP payments.) . . . ______
2. Your employer's SEP payments to your IRA . . . . ______
3. Add lines 1 and 2 . . . . . . ______
4. Amount paid to your non-working spouse's IRA. (Do not include rollovers.) . . . . . ______
5. Add lines 3 and 4. (If you made excess payments in earlier years you may be able to include them on this line. See instuctions for Form 5329, line 3.) . . . ______
6. Wages and other earned income from Form 1040. (Do not include spouse's income and do not reduce your wages by losses from self-employment.) . . . ______
7. Enter employer's SEP payments . . . . ______
8. Subtract line 7 from line 6. Enter result . . . . ______

Complete limitation 9, 10, or 11 below, whichever one applies to you. If your employer contributes to your IRA and your non-working spouse's IRA under a SEP, use the limitation on line 10.

9. **Regular IRA.** Enter $1,500 or 15% of line 8, whichever is smaller . . . . ______
10. **IRA for you and your non-working spouse.** Enter the smallest of: (a) 15% of line 8; or (b) $1,750; or (c) 2 times the amount on line 3; or (d) 2 times the amount on line 4 . . ______
11. **Simplified Employee Pension (SEP).** Enter the smaller of: (a) 15% of line 8; or (b) the total of: line 2 (but not more than $7,500); and $1,500 minus line 2 (but not less than zero) . . . . . . ______
12. **Allowable deduction.** Enter the smaller of: (a) the amount from line 5; or (b) your limitation from line 9, 10, or 11. Also enter on Form 1040, line 24. . ______

(If line 5 is larger than line 12 and you do not withdraw this excess payment before your return is due, you must file Form 5329 and pay the tax due.)

Solution to Crossword Puzzle


INTERNAL REVENUE SERVICE
EARNED
LIABILITY
STATUS
CHARITABLE
BLIND
ALLOWANCE
EXEMPT
CUSTOMS TAX
COPY B
SIXTEENTH
REVENUES
CITIZEN
UNION
STATE
DIVIDEND
RETURN
DIVORCE
MISCELLANEOUS
DATE
INSURANCE
PAY AS YOU GO
TIPS
APRIL
INTEREST
LEGISLATION
RECORDS
EXEMPTION
AGRICULTURAL
REPORT
CASH
SHARE
SINGLE
SALES
BRACKET AMOUNT
REFUND

OREGON INCOME TAX SERVICES LAW
ORS 673.605 TO 673.735
CODE OF PROFESSIONAL CONDUCT

OREGON
Department
of Commerce
"Helping Oregon in Work and Business"

BOARD OF TAX SERVICE EXAMINERS
4TH FLOOR, LABOR & INDUSTRIES BUILDING
SALEM, OREGON 97310
TOLL-FREE #1-800-452-7813
378-4034

7/82

TAX CONSULTANTS AND TAX PREPARERS

(Generally)

Note: Section 21, chapter 842, Oregon Laws 1977, is operative July 1, 1984, and repeals ORS 673.605, 673.610, 673.615, 673.625, 673.630, 673.635, 673.637, 673.640, 673.643, 673.645, 673.655, 673.660, 673.667, 673.685, 673.690, 673.695, 673.700, 673.705, 673.710, 673.725, 673.730, 673.735 and 673.990, relating to tax services.

673.605 Definitions for ORS 673.605 to 673.735. As used in ORS 673.605 to 673.735 unless the context requires otherwise:

(1) "Board" means the State Board of Tax Service Examiners created by ORS 673.725.

(2) "Tax consultant" means a person who is licensed under ORS 673.605 to 673.735 to prepare or advise or assist in the preparation of personal income tax returns for another and for valuable consideration.

(3) "Tax preparer" means any person who is licensed under ORS 673.605 to 673.735 as a tax preparer.

(4) "Tax season" means the period commencing January 15 and ending April 15. [1973 c.387 §1; 1975 c.464 §2; 1977 c.100 §1]

673.610 Application of ORS 673.605 to 673.735. ORS 673.605 to 673.735 do not apply to:

(1) Any full or part-time employe hired to fill a permanent position, who in connection with his duties as an employe has the incidental duty of preparing income tax returns for the business of the employer only.

(2) Any attorney at law rendering services in the performance of his duties as an attorney at law.

(3) While acting as such, any fiduciary, or the regular employes thereof, acting on behalf of the fiduciary estate, the testator, trustor, grantor, or beneficiaries thereof.

(4) Any certified public accountant or public accountant holding a valid permit under ORS 673.010 to 673.480.

(5) Any person employed by a local, state or federal governmental agency but only in performance of his official duties. [1973 c.387 §3; 1977 c.100 §1]

673.615 Prohibited acts. Except as otherwise provided in ORS 673.605 to 673.735:

(1) A person shall not prepare or advise or assist in the preparation of personal income tax returns for another and for valuable consideration or represent that he is so engaged unless he is licensed as a tax consultant under ORS 673.605 to 673.735.

(2) A tax preparer may prepare or advise or assist in the preparation of tax returns only under the supervision of a tax consultant, or a person described in subsection (2) or (4) of ORS 673.610, and subject to such conditions and limitations as the board by rule may impose. [1973 c.387 §2; 1975 c.464 §6; 1977 c.100 §4]

(Licensing)

673.625 Qualifications for tax consultant and tax preparer; examination. (1) Every applicant for a license as a tax consultant and every applicant for licensing as a tax preparer must:

(a) Be not less than 18 years of age;

(b) Possess a high school diploma or have passed an equivalency examination; and

(c) Present evidence satisfactory to the board that he has successfully completed not less than 60 hours in basic personal income tax law, theory and practice at a school training session or educational institution approved by the board.

(2) In addition to the requirements of subsection (1) of this section, every applicant for licensing as a tax preparer must pass to the satisfaction of the board an examination. The examination shall be constructed in a manner that in the judgment of the board measures the applicant's knowledge of Oregon and federal personal income tax law, theory and practice.

(3) In addition to the requirements of subsection (1) of this section, every applicant for licensing as a tax consultant must:

(a) Present evidence satisfactory to the board that he was actively licensed and employed as a tax preparer for not less than two tax seasons or that he was engaged or employed in this or another state in a capacity that is, in the judgment of the board equivalent to that of a tax preparer or tax consultant, for not less than two tax seasons. Certification by a tax consultant or person described in subsection (2) or (4) of ORS 673.610 that the applicant was employed as a tax preparer under his supervision for the period indicated in the certificate shall be considered evidence satisfactory to the board of the applicant's employment as a tax preparer for the period indicated.

(b) Pass to the satisfaction of the board an examination that is constructed in a manner that in the judgment of the board measures the applicant's knowledge of Oregon and federal personal income tax law, theory and practice. The examination for a tax consultant's license shall differ from the examination for a tax preparer's license in that it shall be of a more exacting nature and require higher standards of knowledge of personal income tax law, theory and practice. [1973 c.387 §4; 1975 c.464 §7; 1977 c.100 §5]

673.630 Tax consultant's application. Every person desiring to be licensed as a tax consultant shall apply in writing to the board. The application forms shall be approved by the board. Each application shall include or be accompanied by evidence, under oath or affirmation and satisfactory to the board, that the applicant meets the qualifications prescribed in subsection (1) and in paragraph (a) of subsection (3) of ORS 673.625. Each application shall be accompanied by the examination fee as provided in ORS 673.685. [1973 c.387 §5; 1975 c.464 §8]

673.635 Licensing of tax preparer. Every person desiring to be licensed as a tax preparer shall apply in writing to the board. The application forms shall be approved by the board. Each application shall include or be accompanied by evidence, under oath or affirmation and satisfactory to the board, that the applicant meets the qualifications prescribed in subsection (1) of ORS 673.625. The application shall be accompanied by the examination fee as provided in ORS 673.685. [1973 c.387 §6]

673.637 License without examination; requirements. (1) The board may issue a license, without examination, to an applicant for a license as a tax consultant or as a tax preparer who presents evidence satisfactory to the board that he is licensed as a tax consultant or preparer in a state that has requirements for licensing substantially similar to the requirements for licensing of this state.

(2) Notwithstanding subsections (1) and (3) of ORS 673.625, but as otherwise provided in ORS 673.605 to 673.735, the board shall license, without examination, as a tax consultant any person who is, on the date of his application for a tax consultant's license, enrolled to practice before the Internal Revenue Service pursuant to Title 31, part 10, Code of Federal Regulations. Any person desiring to be licensed under this section shall make written application to the board and shall pay to the board at the time of filing such application a nonrefundable initial tax consultant's license fee as provided in ORS 673.685. [1975 c.464 §16; subsection (2) enacted as 1977 c.100 §3]

673.640 Issuance of licenses. (1) The board shall license as a tax consultant or a tax preparer each applicant who:

(a) Demonstrates to the satisfaction of the board fitness for a license; and

(b) Pays to the board the initial license fee as provided in ORS 673.685.

(2) The board shall issue evidence of licensing to each person licensed. [1973 c.387 §7; 1975 c.464 §11]

673.643 Preparation of tax returns by corporation, firm, or partnership; requirements; liability. (1) A corporation, firm or partnership, through individuals who are authorized within this state to render those services, may engage in the preparation, or in advising or assisting in the preparation of personal income tax returns for another and for valuable consideration and represent that it is so engaged if the corporation, firm or partnership designates and annually reports to the board the authorized individuals responsible for the tax return preparation activities and decisions of the corporation, firm or partnership.

(2) A corporation, firm or partnership shall not be relieved of responsibility for the conduct or acts of its agents, employes or officers by reason of its compliance with subsection (1) of this section, nor shall a licensed tax consultant be relieved of responsibility for professional services performed by reason of his employment by or relationship with such corporation, firm or partnership. [1975 c.464 §10]

673.645 Renewal of licenses; restoration of lapsed license. (1) Any licensed tax consultant and tax preparer, on or before the anniversary of the issuance of his license, shall apply to the board and pay the fee for a renewal of his license. The application shall be accompanied by evidence satisfactory to the board that the person applying for renewal of his license has completed the continuing education required by ORS 673.655.

(2) At least 30 days before the anniversary of the issuance of the license, the board shall notify the licensee that the annual renewal

application and fee are due on or before the anniversary of the issuance of his license.

(3) Any license that is not renewed within 15 days after the renewal date shall lapse.

(4) The board may restore any lapsed license upon payment to it of all past unpaid renewal fees and the fee for restoration of a lapsed license as provided in ORS 673.685. [1973 c.387 §8; 1975 c.464 §12; 1977 c.873 §7]

673.650 [1973 c.387 §9; repealed by 1975 c.464 §26]

673.652 [1975 c.464 §14; repealed by 1977 c.842 §21 and 1977 c.873 §26]

673.655 Continuing education requirement; waiver. (1) Except as provided in subsection (3) of this section, each person licensed as a tax consultant or tax preparer under ORS 673.605 to 673.735 shall submit evidence satisfactory to the board that he has completed at least 60 classroom hours of instruction in personal income tax subjects during the three-year period immediately preceding the date on which the evidence is submitted. The board may prescribe by rule a minimum number of classroom hours that must be completed during any one year. Evidence that the continuing education required by this section has been completed shall be submitted at the time the consultant's or preparer's license renewal fee is submitted. If the board does not receive evidence that the continuing education requirement has been completed by the applicant for renewal of his license, the board shall not renew his active license.

(2) The board shall approve and make known to tax consultants and tax preparers those classroom hours that fulfill the continuing education required by subsection (1) of this section. Approval granted any course of study shall be reviewed periodically. Any classroom hours or course of study that fails to meet the requirements of the board shall be withdrawn from approval.

(3) The board may exempt a tax consultant or tax preparer from the continuing education required by this section upon his application showing evidence satisfactory to the board that he is unable to comply because of unusual or extenuating circumstances. [1973 c.387 §10; 1975 c.464 §17]

673.660 Licenses to be displayed. Each tax consultant and preparer shall display the evidence of his licensing issued to him in accordance with rules adopted by the board. [1973 c.387 §11; 1975 c.464 §18]

673.665 [1973 c.387 §12; repealed by 1975 c.464 §26]

673.667 Inactive status; application; renewal; reactivation; revocation or suspension; prohibition. (1) Whenever a tax consultant or tax preparer ceases to engage in the preparation or in advising or assisting in the preparation of personal income tax returns, he may apply to the board for inactive status. A license that is granted inactive status may be renewed upon payment of the license fee as provided in ORS 673.685. No proof that the continuing education required by ORS 673.655 has been fulfilled need be presented to the board for renewal of an inactive license.

(2) A license in inactive status may be reactivated upon payment of the reactivation fee provided in ORS 673.685 and upon proof of compliance with such continuing education requirements as may be adopted by the board by rule.

(3) A license in inactive status may be revoked or suspended by the board when conditions exist under which the board would have been authorized to revoke or suspend the license if it were active.

(4) No person whose license is inactive shall act as a tax consultant or as a tax preparer. [1975 c.464 §25]

673.670 [1973 c.387 §13; repealed by 1975 c.464 §26]

673.675 [1973 c.387 §14; repealed by 1975 c.464 §26]

673.680 [1973 c.387 §15; repealed by 1975 c.464 §26]

673.685 Fees. The fees for licenses issued, renewed, reactivated or otherwise, and for examinations under ORS 673.605 to 673.735 shall be prescribed by the board and approved by the Executive Department but shall not exceed the following:

(1) For examination for tax consultant's license, $25.

(2) For examination for tax preparer's license, $25.

(3) For initial or renewal of tax consultant's license, $35.

(4) For initial or renewal of tax preparer's license, $25.

(5) For the renewal of a tax consultant's inactive license, $20.

(6) For the renewal of a tax preparer's inactive license, $15.

(7) For the reactivation of a consultant's inactive license, $35; for the reactivation of a tax preparer's inactive license, $25.

(8) For restoration of lapsed license, $15.

(9) For reissuance of a lost or mutilated license, $3. [1973 c.387 §16; 1975 c.464 §19]

673.690 Tax consultant's records. Every person licensed as a tax consultant shall keep records of all personal income tax returns prepared by him, or in the preparation of which his advice or assistance has been given. The records of the returns shall be kept for a period of not less than four years after the date of the preparation, advice or assistance. [1973 c.387 §17; 1975 c.464 §20]

673.695 Director of Commerce as agent for service of process against nonresident; effect of service on director; fee. (1) The acceptance by a nonresident of a license as tax consultant or a tax preparer shall be considered equivalent to the appointment by the nonresident of the Director of Commerce as his attorney upon whom may be served any summons, process or pleading in any action or suit against him in any court of this state, arising out of any business done by him as a tax consultant or tax preparer in this state.

(2) The acceptance of a license shall be considered equivalent to any agreement by the nonresident that any summons, process or pleading in the action or suit may be made by leaving a copy thereof, with a fee of $2, in the hands of the Director of Commerce or his office. Such service shall be sufficient and valid personal service upon the defendant if notice of such service and a copy of the summons, process or pleading is sent forthwith by registered mail by the plaintiff or his attorney to the defendant at the most recent address furnished to the board by the nonresident tax consultant or tax preparer or to his last-known address. An affidavit of the plaintiff or his attorney of the mailing shall be appended to the summons, process or pleading and entered as a part of the return thereof. However, personal service outside of the state in accordance with the statute relating to personal service of summons outside of the state shall relieve the plaintiff from such mailing requirement.

(3) Any summons received or provided in this section shall require the defendant to appear and answer the complaint within four weeks after receipt thereof by the Director of Commerce. The court in which the action or suit is brought may order such continuance as may be necessary to afford the defendant reasonable opportunity to defend the action. The fee of $2 paid by the plaintiff to the director shall be taxed as costs in favor of the plaintiff if he prevails in the action. The director shall keep a record of each summons, process or pleading served upon him under this section, showing the day and hour of service. [1973 c.387 §18]

673.700 Disciplinary powers of board; grounds for discipline. The board may refuse to issue or renew, or may suspend or revoke a license, or may reprimand any person licensed as a tax consultant or tax preparer for:

(1) Violation of ORS 673.705.

(2) Failure to keep the records required by ORS 673.690.

(3) Gross negligence or incompetence in his tax consultant or tax preparer practice.

(4) Conviction of a felony, or of a misdemeanor involving moral turpitude.

(5) Conviction of wilful failure to pay any tax or estimated tax, file any tax return, keep records or supply information required under the tax laws of any state or of the United States, or conviction of the wilful making, rendering, delivery, disclosure, signing or verifying of any false or fraudulent list, return, account, statement or other document, or of supplying any false or fraudulent information, required under the tax laws of any state or of the United States.

(6) Failure to comply with continuing education requirements under ORS 673.655 or under ORS 673.667 unless such requirements have been waived by the board.

(7) Violation of the code of professional conduct prescribed by the board. [1973 c.387 §20; 1975 c.464 §21]

673.705 Prohibited acts. It shall be unlawful for any person to:

(1) Obtain or attempt to obtain a license as a tax consultant or a tax preparer by any fraudulent representation.

(2) Wilfully make a false oath or affirmation under ORS 673.630 or 673.635.

(3) Represent that he is licensed as a tax consultant or a tax preparer if he is not so licensed.

(4) Present or attempt to use the license of another.

(5) Attempt to use a lapsed or revoked license.

(6) Falsely impersonate a licensee under ORS 673.605 to 673.735. [1973 c.387 §19; 1975 c.464 §22]

673.710 Names of tax preparers furnished by Department of Revenue; use of information. The Department of Revenue may furnish to the board the names and addresses, if known, of any person preparing a personal income tax return for another and may also furnish to the board the name and address of the taxpayer in instances where the department or the board has reasonable grounds to believe the person preparing the return prepared it in violation of ORS 673.605 to 673.735. The board, its members, officers and employes, shall use the names and addresses furnished under this section solely in the enforcement of ORS 673.605 to 673.735 and shall not otherwise divulge or make known such information. Any person who violates this prohibition against disclosure, upon conviction, is punishable as provided in subsection (2) of ORS 314.991. [1975 c.425 §2; 1979 c.690 §15]

(State Board)

673.725 State Board of Tax Service Examiners; qualification of members. (1) There is created in the Department of Commerce a State Board of Tax Service Examiners.

(2) All members of the board shall have been engaged in the preparation of personal income tax returns for another and for a valuable consideration for no less than five years. All members shall be licensed as tax consultants under ORS 673.605 to 673.735. [1973 c.387 §21]

673.730 Powers of board. The board shall have the following powers, in addition to the powers otherwise granted by ORS 673.605 to 673.735, and shall have all powers necessary or proper to carry the granted powers into effect:

(1) To determine qualifications of applicants for licensing as a tax consultant or a tax preparer in this state; to cause examinations to be prepared, conducted and graded; and to issue licenses to qualified applicants upon their compliance with ORS 673.605 to 673.735 and the rules of the board.

(2) To restore any licenses suspended or revoked.

(3) To prescribe fees, within the maximum limits provided by ORS 673.685, and to collect fees.

(4) To investigate alleged violations of ORS 673.605 to 673.735.

(5) To enforce the provisions of ORS 673.605 to 673.735 and to exercise general supervision over tax consultant and tax preparer practice.

(6) To formulate a code of professional conduct for tax consultants and tax preparers. [1973 c.387 §22; 1975 c.464 §23]

673.735 Civil penalty procedure. (1) Any person who violates any provision of ORS 673.605 to 673.735 or any rule adopted thereunder shall incur, in addition to any other penalty provided by law, a civil penalty in an amount of not more than $1,000 for each violation. The amount of penalty shall be determined by the board after taking into consideration the gravity of the violation, the previous record of the violator in complying, or in failing to comply, with the provisions of ORS 673.605 to 673.735 or the rules adopted thereunder, and other considerations as the board considers appropriate.

(2) Any penalty provided in subsection (1) of this section becomes due and payable upon notice by the board to the person incurring the penalty. The notice shall be in writing, shall describe the violation with reasonable particularity, and shall advise the person of the amount of penalty, and that the amount of penalty is due not later than 20 days after the date the notice was mailed. Mailing the notice by certified mail, return receipt requested, to the person incurring the penalty accomplishes service of the notice. Refusal of the letter containing the notice by the person is prima facie evidence of receipt of the notice.

(3) The person incurring the penalty has 20 days after the date the notice is mailed in which to make written application for a hearing before the board. The penalty may be remitted or mitigated upon the terms and conditions the board in its discretion considers proper. All hearings under this section shall be conducted pursuant to the applicable provisions of ORS 183.310 to 183.500.

(4) Unless the amount of the penalty is paid within 60 days after the date the order is entered after hearing or if the hearing is waived or unless an appeal is filed, the order of the board under this section shall constitute a judgment and may be filed with the county

clerk in any county of this state. The clerk shall thereupon record the name of the person incurring the penalty and the amount of the penalty in the judgment docket. The penalty provided in the order so docketed becomes a lien upon the title to any interest in real property in the county owned by the person against whom the order is entered, and execution may issue upon the order in the same manner as execution upon a judgment of a court of record.

(5) All penalties recovered under this section shall be paid into the State Treasury and credited to the General Fund to be available for general governmental expenses. [1973 c.387 §24]

PENALTIES

673.990 Penalties. (1) Violation of any of the provisions of ORS 673.020, 673.030, 673.310 to 673.350 is a Class A misdemeanor. Whenever the board has reason to believe that any person is liable to punishment under this subsection it may certify the facts to the Attorney General, who may, in his discretion, cause appropriate proceedings to be brought.

(2) Violation of any provision of ORS 673.605 to 673.735, or any rule adopted thereunder, is a misdemeanor. [Subsection (2) enacted as 1973 c.387 §25; 1975 c.440 §22]

CERTIFICATE OF LEGISLATIVE COUNSEL

Pursuant to ORS 173.170, I, Thomas G. Clifford, Legislative Counsel, do hereby certify that I have compared each section printed in this chapter with the original section in the enrolled bill, and that the sections in this chapter are correct copies of the enrolled sections, with the exception of the changes in form permitted by ORS 173.160 and other changes specifically authorized by law.

Done at Salem, Oregon,
October 1, 1979.

Thomas G. Clifford
Legislative Counsel

CHAPTER 674
[Reserved for expansion]

DIVISION 10

CODE OF PROFESSIONAL CONDUCT

Definitions

800-10-015 As used in these rules, unless the context requires otherwise:

(1) "Board" means the State Board of Tax Service Examiners.

(2) "Licensee" means a tax consultant, tax preparer, or any person, corporation, firm or partnership falling within the purview of ORS 673.605 to 673.735.

(3) "Client" means a person for whom a licensee prepares a personal income tax return for valuable consideration.

(4) "Confidential Information" means information furnished to a licensee for, or in connection with, the preparation of a client's income tax return.

Confidential Information

800-10-020 (1) A licensee shall not disclose any confidential information obtained in the course of professional engagement except:

(a) With the consent of the client;

(b) After being subpoenaed and a court of competent jurisdiction directs him to testify;

(c) In response to an inquiry by the Board or its investigator.

(2) Members of the Board and its employes shall not disclose any confidential client information which comes to their attention in carrying out their official responsibilities.

Integrity and Objectivity

800-10-025 (1) A licensee shall not knowingly misrepresent facts while engaged in preparing or advising in the preparation of income tax returns. He may resolve doubt in favor of his client as long as there is reasonable support for his position.

(2) A licensee who finds that his client has made an error or omitted information or related material required on an income tax return shall promptly advise the client of such error or omission.

(3) A licensee shall not arrange for a refund check to be mailed to him at any time, for any purpose.

(4) A licensee shall not, in connection with the procurement of clients, directly or indirectly, allow any brokerage commission or other participation to the laity from the fees or profits of his professional services of income tax preparation. Fees in connection with preparation of tax returns must be stated separately from, and in addition to, any other professional services provided.

(5) A licensee shall, upon written request by a client, make available or return within a reasonable time to the client personal papers or source material in the manner furnished to licensee by client.

(6) A licensee shall not engage in fraudulent, deceptive or dishonest conduct relating to the licensee's professional practice.

(7) A licensee shall not violate any position of trust, including trusts outside the licensee's professional practice.

Accountability

800-10-030 A licensed tax consultant shall only allow persons to practice in his name who are licensed as tax consultants, tax preparers, or described in subsection (4) of ORS 673.610.

Contingent Fees

800-10-035 A licensee shall not render or offer to render professional services under an arrangement whereby no fee will be charged unless a specific finding or result is attained, or where the fee is otherwise contingent upon the findings or results of such services.

Identification

800-10-040 (1) A licensee shall not prepare any federal or state personal income tax return on which he has not placed his firm name and permanent address on the original and all copies of such returns, plus all other data required of him by Internal Revenue Service, Department of Revenue, and State Board of Tax Service Examiners. At least one complete set of returns shall be supplied to the client.

(2) Where the preparer's signature appears on the tax return, there shall be included:

(a) The state license number of the tax consultant responsible for the preparation. If more than one tax consultant has been designated as responsible for the tax activities of the firm, corporation, or partnership, the return shall include the license number of at least one designated tax consultant.

(b) The state license number of individual preparing the return.

(3) A tax consultant shall provide a year-round phone number and address where clients and the Board may contact him.

Communications

800-10-042 A licensee shall, when requested, respond in writing to communications from the Board within thirty days of the mailing of such communications to the last known address or addresses furnished to the Board by licensee.

Experience and Competence

800-10-045 A licensee shall not knowingly undertake to prepare tax returns that are outside the field of his experience and competence unless he obtains the assistance of someone who is competent in the area of concern.

Advertising and Solicitation.

800-10-050 (1) No licensee shall advertise or solicit clients in any manner which is misleading to the public.

(2) No licensee shall give or offer to give any tangible inducement in the procurement of income tax clients.

(3) No licensee shall give or offer to give a discount unless:

(a) The discount is based upon a conspicuously posted fee schedule at the licensee's place of business; and

(b) The posted fee schedule is the usual and customary charges; and

(c) The posted fee schedule is made available to the general public.

(4) No person shall display or use the designation of L.T.C. unless duly authorized by virtue of holding a valid tax consultant's license.

(5) Only a licensed tax consultant may use the letters L.T.C. or the title "Licensed Tax Consultant" in connection with his name. A licensed tax preparer may only use the title "tax preparer". He may not use any acronyms or abbreviations such as L.T.P. or T.P.

(6) All advertising used in the solicitation of business must include the name of the tax consultant or business name through which the tax consultant renders his services.

(7) In the solicitation of clients, no licensee shall directly or indirectly downgrade or cast doubt upon the ability, competence, experience, or character of another tax consultant, tax preparer, public accountant, certified public accountant, or any other person authorized by law to prepare tax returns.

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Oregon's tax relief plan

The Oregon Legislature passed a major tax relief measure in 1979. Voters approved the Tax Relief Plan at the May 1980 primary election. This information circular summarizes the Tax Relief Plan.

Property tax relief

Homeowners

Under the Tax Relief Plan, the State of Oregon pays up to 30 percent of the property taxes on **qualifying** owner-occupied "homesteads." A homestead is the main residence you own and live in. There is no income limit for eligibility in this plan. You must file an application with your county assessor to qualify for property tax relief.

In most cases, the state payment is made directly to your county. It reduces the amount of tax you owe on your homestead. The amount of the state payment is shown as a credit on your November property tax statement. The maximum amount of property tax relief for homeowners may vary from year to year, depending on funds available.

Also, the amount an individual homeowner will receive is limited by the "A-B" ballot system. The state payment only applies to a taxing district's "adjusted levy," commonly called the "A" ballot amount. The adjusted levy is the district's operating levy in its "base year" adjusted for population growth and inflation.

Voters may approve tax levies that exceed the "A" ballot amount. However, the state will not pay any part of these levies, which are known as "B" ballot levies. If voters approve a new tax base, the state will pay property tax relief on the entire base, even if it is over the adjusted levy limit.

The state also will not pay any part of the cost of bonds or special assessments. And, the state won't pay any part of the cost of capital construction levies approved after Oct. 3, 1979. This means in most cases the state payment is less than 30 percent of the total property tax on your homestead.

Renters

Renters may qualify for a 4.7 percent refund of their previous year's rent by filing a claim each year with the Oregon Department of Revenue. The state makes rent rebate payments directly to renters in October. The maximum amount of property tax relief may vary from year to year, depending on funds available.

The rented property must be subject to property tax in Oregon. Property that is not taxed does not qualify for the refund. For example, university housing is not taxed, so residents would not qualify for renter refunds.

Mobile home residents who rent their space or home may qualify as renters.

Homeowner and Renter Refund Program (HARRP)

Homeowners and renters with household income less than $17,500 may qualify for the Homeowner and Renter Refund Program (HARRP). This program is for low and middle income Oregonians. You may qualify for both property tax relief and HARRP.

Your HARRP check, sent to you in October, is based on your income and the amount of property tax or rent you paid the previous year. Benefits under HARRP range from $36 to $750 for homeowners and from $18 to $375 for renters.

Assessment limitation

The Tax Relief Plan limits how much property assessments can increase. Property is divided into two classes: 1) "homesteads," and 2) "all other property." A "homestead" is an owner-occupied principal residence that has qualified through application for property tax relief. "All other property" includes farm, commercial, industrial and rental properties, and homes that have not qualified for property tax relief.

Assessments in each class cannot increase more than 5 percent a year on a statewide average. Individual property assessments can change more or less than 5 percent.

Property is now assessed at a percentage of its true cash (market) value to comply with the assessment limit. The adjustment percentage or ratio for each of the two classes of property is determined each year by the Oregon Department of Revenue.

Income tax relief

Personal income tax

The Tax Relief Plan increased the personal exemption from $750 to $1,000. And it increased the maximum amount of federal tax you may subtract on your state return from $5,000 to $7,000.

Return of surplus

The state returned part of its income tax surplus to personal income tax payers in 1979. Taxpayers received a 9 percent rebate of the previous year's tax payment. The Tax Relief Plan includes a provision that requires any future surpluses to be returned. Whenever the state collects more than 2 percent over the amount of tax expected, the entire surplus must be returned to personal income and corporate excise and income tax payers.

Government spending limits

The Tax Relief Plan limits how fast state government appropriations may grow. State expenditures for general government purposes (not including property tax relief) can't increase more than the rate personal income increased in Oregon during the previous two years.

Questions?

If you have additional questions, call Tax Help:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

March 1982

Oregon changes to federal income

Oregon didn't adopt most new federal income tax laws passed after 1980. The Economic Recovery Tax Act, passed by Congress in 1981, made several changes to federal tax laws. This information circular explains some of the tax year 1981 differences between Oregon and federal income tax laws and how to handle them on your 1981 Oregon return.

Oregon changes to income

This new section has been added to the Oregon full-year (Form 40) and part-year and nonresident (Form 40NR) returns. Use this section to make changes to your federal adjusted gross income (AGI) to arrive at your Oregon AGI using 1980 federal law. You will use Oregon AGI to figure certain amounts on your Oregon return (such as the standard deduction).

The following major federal law changes may require a change to federal income on your Oregon return:

All Savers Certificate interest

Federal tax law allows you a lifetime exclusion of up to $1,000 ($2,000 on a joint return) of interest earned on All Savers Certificates.

Oregon doesn't allow the exclusion. So, you must add All Savers interest to income on your Oregon return. You may reduce All Savers interest by any of the $200 ($400 on a joint return) interest and dividend exclusion that you didn't use on your federal return.

If you filed Oregon Form 40S, include your All Savers interest with other taxable interest. Then reduce your total taxable dividends and interest by your allowable exclusion ($200 or $400).

Sale of a personal residence

A change to federal law allows you up to two years to buy a new home before or after selling your old home. If you reinvest within this period you can defer the gain on the sale on your federal return. Oregon still allows only 18 months. This difference is only for homes sold after 1980.

If you don't buy a new home within 18 months of selling your old home, you must amend your Oregon return for the year you sold the old home. Show the taxable gain on the sale of your old home on the amended return.

Lifetime exclusion of gain on the sale of your home

If you are 55 years or older, a federal law change allows you a one-time exclusion of up to $125,000 of the gain on the sale of your home. Oregon still follows the old federal law which allows $100,000.

Figure the amount that you excluded on your federal Form 2119 that is over $100,000. Fill in 40 percent of this amount on line 4 of Form 40 (line 24 of Form 40NR). Don't fill in more than $10,000.

Did you purchase a new home within 18 months of selling your old home? If so, you may be able to defer the gain that is over $100,000. Contact the Oregon Department of Revenue for more information.

Changes in depreciation for Oregon

A new federal law changes the way you figure depreciation on business or investment property you began depreciating in 1981. This new federal system, called Accelerated Cost Recovery System (ACRS), can't be used for Oregon.

If you began depreciating business or investment property in 1981, you will have to use a different method for Oregon than you do on your federal return. Oregon will let you use any depreciation method allowable on your 1980 federal return. Use the Oregon Depreciation Schedule (Form 150-101-025) to refigure your Oregon depreciation.

If your Oregon depreciation is less than your federal depreciation, add the amount to your income on Form 40, line 3; or Form 40NR, line 23.

If your Oregon depreciation is more than your federal depreciation, subtract the amount from

(over)

your income on Form 40, line 3; or Form 40NR, line 23. Put brackets (< >) around this amount.

Did you sell property you began depreciating in 1981? If so, your Oregon net capital gain (loss) or ordinary gain (loss) on that property may be different than the amounts shown on your federal return. Use 1980 federal law and the depreciation you figured for that property on the Oregon Depreciation Schedule to figure your gain (loss) for Oregon. Fill in on line 4 (Form 40) or line 24 (Form 40NR) the difference between the net gain shown on your federal return and the amount you refigured for Oregon.

Did you figure a difference between federal and Oregon capital gain? Use your Oregon capital gain deduction to figure your minimum tax on Schedule M.

Incentive stock options

A new federal law allows a new type of option—the **incentive stock option.** Generally, income from an incentive option plan is taxed by the federal government when the stock is sold or exchanged.

Oregon didn't adopt this law. Treat options granted under this plan as nonstatutory stock options. Generally, income is realized when the nonstatutory stock option is exercised. The difference between the amount you paid for the option and the fair-market value of the stock is ordinary income.

If you exercised a qualified or restricted stock option before May 20, 1981, the exercise will be treated the same way for Oregon as on your federal return.

If you exercised any stock option after May 20, 1981, you must treat the exercise under rules for nonstatutory stock options. That is, when you use the option to obtain stock, you will be taxed by Oregon on the difference between the option price (what you paid for the option) and the fair market value of the stock on the date you exercised the option. Fill in the difference between the income for federal purposes and for Oregon purposes on Form 40, line 4; or Form 40NR, line 24.

Individual and private pensions

Contributions to an individual retirement account (IRA), a self-employed retirement account (KEOGH) and a simplified employee plan (SEP) are not taxed at the time you make them. These pensions are taxed as ordinary income when you begin receiving the pension payments.

As a result of action by the 1982 special session of the Legislature, Oregon law follows federal law on these pensions.

Important note

The 1982 special session of the Legislature adopted new federal law on individual pension plans retroactive to tax year 1981. This change was made after the 1981 Oregon income tax packets were distributed. Oregon law on IRAs, KEOGHs and SEPs now follows federal law. You may need to amend your 1981 Oregon return if: 1) you received an early distribution of benefits from a KEOGH plan; 2) you transferred bonds from a qualified purchase plan to an IRA.

Questions?

Call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Political contributions

Oregon law allows an income tax credit for political contributions. This information circular describes the contributions that qualify for the credit. It also explains how to claim the credit.

You may qualify to claim the political contribution credit on both your federal and Oregon returns. To claim the credit on your state tax return, you **must** turn in with the return the official receipts from the candidate or organization. Canceled checks may also be used to show your contributions.

Requirements

In order to qualify for either the federal or Oregon credit, your contribution must have been made in money. Contributions of goods or services do not qualify.

Since Oregon and federal laws differ, you may qualify for a federal credit but not an Oregon credit **OR** you may qualify for an Oregon credit but not a federal credit. The following describes which contributions qualify under federal or Oregon laws.

Candidates

Federal: A person must be a candidate for nomination or election to a federal, state or local elective office in any primary, general or special election. The candidate must have publicly announced the candidacy before the end of the year following the year in which the contribution is made. The candidate also must meet the legal qualifications to hold the office.

Oregon: A person must be a candidate for nomination or election to a federal, state or local elective office in any primary, general or special election. The candidate must, in the year the contribution is made, either be listed on a primary, general or special election ballot in Oregon, or file a petition for nomination, a declaration of candidacy or certificate of nomination as required by law.

Committees

Federal: Committees, associations or organizations must support candidates for nomination or election according to the same rules as contributions to candidates. Committees that support ballot measures do not qualify.

Oregon: Committees, trusts, associations and other organizations are eligible to receive contributions for which a taxpayer may claim a credit. The committee must be organized to serve one of two purposes: (1) to influence or attempt to influence the nomination or election of one or more individuals who are candidates for nomination or election to any federal, state or local elective office voted on in Oregon; (2) to support or oppose ballot measures or questions to be voted on within Oregon. The group supporting or opposing a ballot measure must have certified the name of its political treasurer to the Oregon Secretary of State's office. This means taxpayers may take credits for contributions to political action committees and the committees may spend the money to support candidates or to support or oppose ballot measures.

Political parties

Federal: Political parties must be national, state or local committees of major political parties.

Oregon: Political parties can be national, state or local committees of major political parties. Oregon also allows a tax credit for contributions made to minor political parties that qualify under state law. Contact the Oregon Secretary of State to see if a particular party qualifies.

Newsletter fund

Federal: The credit is allowed for contributions to a newsletter fund. The fund must be established and maintained by an individual who holds, has been elected to or is a candidate for any federal, state or local elective office.

Oregon: Oregon does not allow credit for contributions made to a newletter fund.

How to compute the credit

Your federal tax credit is one-half of your contribution and is limited to $50 ($100 on a joint return). Your state tax credit is also one-half of your contribution but is limited to $25 ($50 on a joint return). The credit cannot be more than taxes owed on either the federal or the Oregon return. The combined tax benefit is the sum of the federal credit and state credit.

Example:

Amount of Contribution	Federal Credit		State Credit		Total
$ 50 single taxpayer claims	$ 25	+	$25	=	$ 50
$200 married taxpayer claims	$100	+	$50	=	$150

FURTHER INFORMATION on Oregon tax treatment of political contributions is available:

By mail:
Audit Division
Oregon Department of Revenue
Revenue Building
Salem, OR 97310

By phone:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems)	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Property tax relief for homeowners

There are now two property tax relief programs for homeowners in Oregon. You may be eligible for both programs. The programs are:

1. Property Tax Relief Plan (PTR).
2. Homeowner and Renter Refund Program (HARRP).

The Property Tax Relief plan is for most Oregonians. The state will pay part of your property taxes, if you qualify. There is no income limit for eligibility in this plan. File an application with your county assessor. **File only once,** unless you move, have a recorded life estate, or no longer use the property as your homestead.

HARRP is for low and middle-income homeowners. You can receive a check from the state to help you pay your property taxes, if you qualify. File an application **each year** with the Oregon Department of Revenue.

Property Tax Relief Plan (PTR)

You qualify for PTR if:

1. You own or are buying your home or have a life estate; and
2. You are the owner of record (Your deed or contract is recorded. Or, in the case of a mobile home, you have the title or you are shown on the registration as the owner.); and
3. Your residence is subject to property tax; and
4. Your Oregon residence is your principal living place on June 30, 1982.

There is no income limit for this plan.

How to file for PTR

File an Oregon Homeowner Property Tax Relief form with your county assessor:

1. If you owned and occupied your homestead on Jan. 1, 1982, and **haven't** already filed an approved tax relief claim on the property, you must file before April 15, 1982.
2. If you owned and occupied your homestead after Jan. 1, 1982, but before July 1, 1982, you must qualify your property for tax relief under either a. or b. below.
   a. If the property was not already qualified by the prior owner as a homestead on Jan. 1, 1982, you must file your claim before April 15, 1982, or within 30 days after you establish the property as your homestead, whichever is later. Examples of unqualified properties include a newly constructed home and a home that was rented prior to your occupancy.
   b. If the property was already qualified as a homestead on Jan. 1, 1982, by the previous owner, you must file a claim by April 15, 1983.
3. Mobile home or houseboat owners must file by the same deadlines. In addition, the mobile home or houseboat must be registered in your name before August 1 of the year the claim is required to be filed.
4. If you have a recorded life estate, you must file your first year's claim by the deadlines in 1. or 2. above. For following years, you must file a claim by April 15.

If you are unsure whether your property was a homestead on Jan. 1, contact your county assessor's office. Also, notify your assessor if you no longer use your property as a homestead. Owners who fail to notify the assessor face a penalty.

How much tax relief?

The State of Oregon will pay up to 30 percent of your property taxes if you qualify. This is paid to your county. The state payment reduces the amount of tax you would normally owe. The amount of the state payment will be shown as a credit on your November property tax statement. The maximum payment depends on funds available.

Also, the amount an individual homeowner may receive is limited by the "A-B" ballot system. The state payment only applies to a taxing district's "adjusted levy." The adjusted levy is commonly called the "A" ballot levy. The levy is determined by taking the district's operating levy in its "base year" and adjusting it for population growth and inflation.

Voters may approve tax levies that exceed the "A" levy amount, but no state payment is allowed. These requests are commonly called "B" ballot levies. If voters approve a new tax base, the state will pay property tax relief on the entire base, even it it is over the adjusted levy limit.

The state will not pay any part of a levy for the cost of bonds or special assessments. And, the state won't pay any part of the cost of capital construction levies approved after Oct. 3, 1979. This means in most cases the state payment is less than 30 percent of the total property tax on your homestead.

Mobile home owners (PTR)

If you live in a mobile home and either own the home and rent the land, or rent the home and own the land, you may qualify for both homeowner and renter relief.

To apply for homeowner relief on the portion of the property you own, file a claim with your county assessor (See "How to file for PTR"). To apply for renter relief on the portion you rent, file Form 70R with the Oregon Department of Revenue by April 15, 1982. Form 70R and instructions are included in the 1981 Oregon full-year resident income tax packet.

Homeowner and Renter Refund Program (HARRP)

You qualify for the Homeowner and Renter Refund Program (HARRP) if you meet PTR qualifications 1, 2 and 3; **and:**

1. Your Oregon residence was your principal living place on Dec. 31, 1981; and
2. Your annual household income was less than $17,500.

How to file for HARRP

HARRP is not automatic. You must file a claim (Form 70R) each year to receive a HARRP check. Form 70R and instructions are included in the Oregon full-year resident income tax packet.

Attach Form 70R to your Oregon income tax return, if you file a return. Also attach a copy of your property tax statement or statements from your county assessor. If you don't have to file an income tax return, send your Form 70R and a copy of your property tax statement or statements to REFUND, PO Box 14700, Salem, OR 97310. Send in your completed claim form by April 15, 1982.

Your check

Your HARRP check is determined by your household income and the property tax you paid. Although the amount of your check is based on your prior year's property taxes, it is not a refund of those taxes. The check is intended to help you pay the current year's property taxes.

The Oregon Department of Revenue will send you your check in October. The most you can receive is $750 and the least is $36.

Mobile home owners (HARRP)

If you own your mobile home, and/or the land it's on, fill out the "mobile home owners" section on Form 70R. Form 70R and instructions are included in the full-year resident Oregon income tax packet. You may qualify for homeowner tax relief on the portion of the property you own if you meet the homeowner qualifications. You may also qualify for renter relief on the portion you rent if you meet the renter qualifications listed in the income tax packet.

What is "household income"?

Household income is the total income of you and your spouse if you are living in the same household (not your children, relatives or friends). It includes (but is not limited to):

wages
salaries
tips
net business and
 farm income
 (loss limited
 to $1,000)
interest (taxable
 and nontaxable)
dividends (taxable
 and nontaxable)
pensions (taxable
 and nontaxable)
rents (loss limited
 to $1,000)
Social Security
 payments
workers'
 compensation
child support
welfare and
 unemployment
 payments
inheritances
gifts and grants
 in excess of
 $500 per year
life insurance
 payments
strike benefits
military pay
 and benefits
veteran's benefits
alimony

Income does not include food stamps, WIC vouchers, welfare payments for foster child care, or any governmental grant which you must use for rehabilitation of your homestead.

Questions?

For more information, contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Reforestation tax credit

If you develop underproductive forest land into a commercial forest, you may be eligible for this credit. The credit is equal to 10 percent of your cost to develop the forest.

Who is eligible?

An individual, corporation, or other legal entity may claim the credit. You must:

1) Own or lease between 10 and 500 acres of land in Oregon capable of growing a commercial forest.

2) Develop the land into a commercial forest. You may not claim the credit to grow Christmas trees.

3) Spend at least $500 on the project. Funds provided to you by state or federal cost-share programs are not considered to be money you spent on the project.

Members of a partnership can claim a credit for costs incurred by the partnership. A partner should figure the credit based on his or her percentage of interest in the partnership. Shareholders of a Subchapter S corporation can't claim the credit for reforestation expenses incurred by the corporation.

What are qualifying expenses to develop the forest?

You may claim actual expenses incurred for labor, supervision, materials and equipment operating costs. Don't claim the cost of equipment or tools used in the project that have a useful life of more than one year. You must depreciate these items. You may claim the allowable depreciation expense as a cost of the project.

You must reduce your cost by the total amount of any reimbursement you receive from state or federal cost-share programs. Also, don't include costs incurred to comply with the Oregon Forest Practices Act requirements.

How to claim the credit

One half of the credit (5 percent of the costs) must be claimed for the year the project is completed. A service forester from the Oregon Department of Forestry must inspect the land and, if your project qualifies, issue a preliminary certificate. Attach a copy of this certificate to your Oregon tax return. The balance of the credit (5 percent of the costs plus 10 percent of any additional maintenance costs) must be claimed after the trees have survived two years and don't have other plants threatening their survival. The service forester must again inspect your land and, if the forest is established, issue the final certificate. Attach a copy of the completed final certificate to your return.

Recapture

If you don't establish the forest within two years, due to reasons beyond your control, you may provide a plan for replanting the trees. If you do not provide a plan for replanting or the reasons the forest was not established were within your control, you must repay the credit you previously received.

Carryover

The credit cannot exceed your tax liability. Any credit which is not used may be carried forward and claimed as a credit against your Oregon tax for each of the next three years. If the excess is not used within three years, it is lost.

Change in ownership

If there is a change in ownership between the time the project is completed and the forest is established, only the original owner may claim the balance of the credit. If the forest is not established, the original owner must repay the credit previously received. The new owner doesn't qualify for any credit on a project started by the original owner.

Depreciation and basis

You may still claim any depreciation or amortization otherwise allowed. Don't reduce your basis in the property by the amount of the credit.

Questions about reforestation?

For forms or more information, contact the Oregon Department of Forestry:

Salem:	378-2542
Portland:	229-5700, ext. 8-2542
Eugene:	686-7500, ext. 8-2542
Elsewhere in Oregon (toll free):	1-800-452-7813, ext. 8-2542

Questions about the tax credit?

Contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular
December 1981

Weatherization tax credit

The Oregon weatherization tax credit has ended, retroactive to Jan. 1, 1981, for homeowners heating with a fuel other than oil, propane, butane or kerosene. Residential heating customers who used oil, propane, butane or kerosene, and who weatherized before Sept. 1, 1981, may still claim a tax credit on their 1981 Oregon income tax returns.

This information circular explains how residential heating customers who use oil, propane, butane or kerosene can claim the weatherization tax credit for 1981.

Electric and natural gas space heating customers who weatherized their residences between Jan. 1, 1981, and Nov. 1, 1981, may apply to their utility company for a payment after Dec. 1, 1981. People who heat their homes with wood only (no backup space heating system) may apply to the utility company that supplies their water heating (electricity or natural gas). The payment will be figured on the same basis as the tax credit would have been. A weatherization incentive program will also be available to those who weatherize after Nov. 1, 1981, if they use electricity or natural gas as their main source of heat in their homes. Contact your utility for information.

A weatherization incentive program is also available to those who heat their homes with oil, propane, butane or kerosene and weatherize on or after Jan. 1, 1982. You will be eligible for state-subsidized 6½ percent loans from participating banks and saving and loan associations. People who heat their homes with wood and have no other backup heating system also qualify. Contact your energy supplier for more information.

Some of the items eligible for prior tax years no longer qualify for the 1981 weatherization credit. Also, some new items have been added. If you are filing or amending a prior year's return, get the information circular for that particular tax year.

Requirements

1. The work must be done on your principal Oregon residence or property that you own which is the principal residence of a renter. (Resort homes rented to vacationers don't qualify.) Mobile homes, houseboats and individual units in multiple-unit residential housing qualify, along with conventional homes. Recreational vehicles don't qualify. You may claim the credit on only one dwelling unit per year. The total credit claimed for any one dwelling can't be more than $125. Once you claim the maximum credit for a dwelling, you can't claim the credit again for the same dwelling.
2. You must be the owner or purchaser under a recorded contract of the dwelling in which the materials are installed.
3. The home must be occupied at the time weatherization materials are installed. New homes under construction don't qualify. New construction on existing homes doesn't qualify. Also, remodeling which adds living space doesn't qualify.
4. You may not claim any part of weatherization costs financed by any state weatherization aid, grant, refund or low-interest loan. Weatherization costs paid for by no-interest loans from utility companies don't qualify for the credit. The same is true for a low-interest (maximum 6.5 percent) weatherization loan. You still qualify for the credit if your weatherization loan is from the Oregon Department of Veterans Affairs or if you have a conventional bank loan.
5. You must claim the credit for the tax year the weatherization work is done, even if you pay for the work in another tax year.

Amount of credit

The credit is $125 or one-fourth the cost of weatherizing including installation, whichever is less. The total credits claimed for any one dwelling cannot exceed $125. Your credit cannot exceed the amount of income tax you owe. If the credit is more than the amount of tax you owe, the extra amount may be carried forward. You can claim it as a credit against taxes owed for each of the next five years until it is used up.

How to claim the credit

Complete a weatherization certificate explaining what work was done and attach it to your Oregon income tax return. Certificates are available from Oregon Department of Revenue offices or by writing: Forms, Oregon Department of Revenue, Revenue Building, Salem, OR 97310.

You don't have to turn in receipts for weatherization materials and work. But save these receipts for your records.

What qualifies as 'weatherization'?

These items qualify for tax year 1981.

Insulation

1. ceiling or attic including insulating material installed on the exterior of flat roofs but excluding any roofing material installed on top of insulating materials

2. exterior walls*
3. basement walls or crawl space foundation walls*
4. floors over unheated spaces and materials to support insulation
5. heating system supply and return air ducts in unheated spaces
6. water heaters and water or steam pipes in unheated spaces
7. weatherstripping
8. caulking
9. vapor barrier materials*
10. ground cover in crawl spaces
11. cost of renting equipment to blow in insulation*

Furnaces

1. furnace or boiler replacement burners resulting in increased combustion efficiency (must replace existing burner and be of same fuel type). Burners acquired as part of new furnace or boiler don't qualify.
2. replacement furnaces or boilers when they replace an existing converted solid fuel gravity furnace that once burned sawdust, wood or coal and was converted to fuel oil or natural gas. Replacement must be of same fuel type as furnace it replaced.*

Windows and doors

1. storm or thermal windows
2. storm or thermal doors

Miscellaneous

1. electric ignition devices for gas heating systems and appliances, except those acquired as part of a new furnace or boiler
2. water flow regulating devices on any hot water outlet
3. attic ventilation (excluding power ventilators)*
4. dehumidifiers, plug-in type or permanently installed
5. timed thermostats
6. automatic vent dampers installed on furnaces, boilers or water heaters
7. improved draft hoods restricting flue heat loss during on and off cycles on furnaces, boilers or water heaters
8. timers installed on hot water circulation pumps serving multiple unit residential housing*
9. flue heat recovery devices for use on gas- or oil-fired furnaces or boilers
10. insulated shades and shutters tightly sealed on all four sides (R-value must be at least 3. If foam plastic, the maximum flame spread rating can't be more than 75)

What does NOT qualify as 'weatherization'?

1. siding
2. roofing
3. carpeting
4. microwave ovens and other appliances
5. dimmer switches
6. heat pumps
7. wood or sawdust-burning stoves, heaters and furnaces
8. ceiling to floor air circulators
9. thermal draperies and awnings
10. radiator temperature control valves
11. furnace tune-up and cleaning
12. appliance electricity consumption meter
13. new gasketing for refrigerators, freezers and ovens
14. solar control films or screens
15. transient voltage surge suppressors
16. power ventilators
17. fireplace modifications (outside air inlets, glass screens, heat exchangers, fire box inserts, cost of sealing off fireplaces)
18. automatic water heater schedulers
19. insulation of mobile home walls
20. skirting on mobile home
21. flue heat recovery devices for use on woodburning equipment
22. any insulation, other than on a water heater, water pipe or heating ducts, not installed between a heated area and an unheated area
23. any materials installed in new construction, additions to existing structures, or remodeling which adds living space

Questions about qualifying items?

Call the Oregon Department of Energy if you are unsure if you qualify as an oil, propane, butane or kerosene customer, or for information about qualifying weatherization materials:

Salem:	378-4040
Elsewhere in Oregon (toll free):	1-800-452-7813, ext. 8-4040

Questions about the tax credit?

Call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

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*Does not qualify if dwelling is mobile home.

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Married persons filing separate returns

If you and your spouse file separate federal income tax returns, you must file separate Oregon returns. However, if you file a joint federal return and one of you is a **full-year** Oregon resident and the other is a **part-year resident or nonresident,** you have a choice as to how you file your Oregon income tax return.

You may file a joint Oregon return

File as if you were both full-year residents. You must report the total income earned by both spouses. Your combined federal adjusted gross income is what you will report on your Oregon return. You may claim a credit for income tax paid to another state.

You may file separate Oregon returns

You and your spouse each report your own income and deductions. A part-year resident spouse may claim a credit for income tax paid to another state on income taxed by Oregon and the other state. File your returns this way:

1. If you are the full-year resident spouse, file Oregon Form 40. If you are the part-year resident or nonresident spouse, file Oregon Form 40NR.

2. Report your share of federal adjusted gross income subject to Oregon tax. Also report your share of any Oregon "changes," additions or subtractions (except federal tax explained below).

3. Claim an exemption for yourself and any dependent for whom you provided major support. You may not claim an exemption for your spouse or a dependent your spouse claimed on a separate return.

4. Subtract "your share"* multiplied by the federal income tax liability (the sum of lines 47, 49a, 49b, 50 and 52 of federal Form 1040, less the amount on line 57; or line 15a of federal Form 1040A, less the amount on lines 13a and 13c). You cannot claim more than $3,500 as your share of federal tax.

$$\text{*"Your share"} = \frac{\text{Your share of Oregon adjusted gross income**}}{\text{Total Oregon adjusted gross income**}}$$

**Oregon adjusted gross income appears on Form 40, line 5, Form 40S, line 4, or Form 40NR, line 26a.

5. Claim either of the following deductions:

   a. "your share" multiplied by net Oregon itemized deductions (net Oregon itemized deductions are figured using the schedule below)

      Amount from Federal Schedule A, line 39 ____________________
      Less Oregon income tax deducted on Schedule A ____________________
      Net Oregon itemized deductions ____________________

   Note: You do not have to itemize deductions on your federal return. However, if either of you itemize deductions, the other spouse must also itemize his or her deductions. If you can clearly show your own itemized deductions, you may each claim your own deductions instead of apportioning them by "your share."

   OR

   b. Your Oregon standard deduction, which is the larger of the following: (1) $525 or (2) 13 percent of your share of Oregon adjusted gross income, not to exceed $750.

6. Part-year residents or nonresidents can subtract only a percentage of their share of exemptions, deductions and federal income tax in figuring Oregon taxable income. The allowable percentage is figured as follows:

$$\text{Percentage} = \frac{\text{Your share of federal adjusted gross income subject to Oregon tax (line 26b)}}{\text{Your share of Oregon adjusted gross income (line 26a)}}$$

If you and your spouse are filing separate Oregon returns, be sure both of your Social Security numbers appear on the front of your Oregon return. Also, in the lower left hand corner of your return write, "married filing separately for Oregon only." This should be written in colored ink (not red).

Attach a schedule to your return showing how you split your joint federal income, itemized deductions and federal tax liability. Be sure to attach a complete copy of your joint federal returns and schedules, too.

Example:

John worked and lived in Oregon all year. He earned $8,000. Mary moved from California to Oregon in July and married John. She earned $6,000 in Oregon and $6,000 in California. Their total income was $20,000. They have $3,600 in net Oregon itemized deductions. Their federal income tax liability is $2,000. They file separate Oregon returns this way.

Mary (Part-year resident spouse)

1. File Oregon Form 40NR
2. Report $6,000 income

   (Figure the total deductions before figuring the percentage of deductions allowed)

3. One exemption = $1,000
4. Federal income tax subtraction $1,200

   $\text{Mary's share} = \frac{\$12,000}{\$20,000} = .60 = 60\%$

   60% of $2,000 = $1,200

5. Net Oregon itemized deductions $2,160

   60% of $3,600 = $2,160

   Mary's total deductions $4,360

6. Figure the Oregon percentage (see No. 6 of instructions) to determine Mary's total deductions allowed to arrive at Oregon taxable income.

   $\text{Oregon Percentage} = \frac{\$\ 6,000}{\$12,000} = .50 = 50\%$

   Deductions allowed on the Oregon return to arrive at Oregon taxable income equals 50% of $4,360 (Mary's total deductions) = $2,180.

John (Full-year resident spouse)

1. File Oregon Form 40
2. Report $8,000 income
3. One exemption = $1,000
4. Claim $800 federal income tax subtraction

   $\text{John's share} = \frac{\$\ 8,000}{\$20,000} = .40 = 40\%$

   40% of $2,000 = $800

5. Claim $1,440 net Oregon itemized deductions

   (40% of $3,600 = $1,440)

Questions?

Contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Military personnel filing information

This information will help you decide whether you must file an Oregon individual income tax return.

Residents of Oregon

Military personnel who enter the Armed Forces from Oregon do not lose their Oregon residence or "domicile" merely by being stationed outside of Oregon. However, for income tax purposes, if you meet certain requirements you may be considered a nonresident and will not have to pay Oregon tax on your military pay.

You are considered a nonresident if:

1. You don't have a personal residence in Oregon, for yourself or for your family, during any part of the tax year; **and**
2. Your personal residence is outside Oregon during the entire tax year; **and**
3. You spend less than 31 days in Oregon during the tax year.

If you meet all three requirements, your military pay is not taxable by Oregon. You owe Oregon tax only if you have income from an Oregon source such as an Oregon property sale or income from a business or from rental property located in Oregon.

If you do not meet all three requirements, your military pay and all other income is subject to Oregon tax. You must file an Oregon return. But, you may exclude up to $3,000 of your active duty pay from Oregon taxable income.

Oregon income tax may be withheld from your military pay. If you meet the three nonresident requirements listed above you should file for a refund of Oregon tax withheld. To obtain your refund, file Oregon Form 40NR (Part-year and Nonresident). Label the return "Military Nonresident."

If you expect to meet the requirements again next year, you can have your paymaster fill out the necessary forms so that Oregon tax will no longer be withheld.

Nonresidents of Oregon

If you are not a resident of Oregon but you are stationed in Oregon, your military pay is not subject to Oregon tax. You must file an Oregon return only if you have income from an Oregon source (such as wages from a job held in off duty hours, wages earned by your spouse in Oregon or earnings from an Oregon business or rental property).

What form should be used?

Oregon residents file Oregon Form 40 (Full-Year Resident) in order to claim the $3,000 active duty pay exclusion. **You can't file Form 40S (short form).**

Oregonians who meet the three nonresident requirements and nonresidents of Oregon stationed here should file Oregon Form 40NR (Part-year and Nonresident). Enter on the return only income from an Oregon source which is subject to Oregon tax.

When filing a Form 40 or 40NR, attach a copy of your completed federal return. This is required even if you owe no Oregon tax or are only requesting a withholding refund.

Filing and payment date

The date for filing a calendar year return and payment of the tax is April 15. If you owe tax on your Oregon income tax return, you must pay the entire amount by April 15. Interest at the rate of 1 percent per month or fraction of a month will be added to all unpaid balances. A penalty also will be charged.

Extension for filing your return

You can get an extension to file your return but not to pay your tax due. The entire tax due must be paid by April 15, to avoid interest and penalty charges.

You are allowed the same extension period for Oregon as allowed for your federal return. Do you need an extension to file **only** your Oregon return? Send us a federal extension request marked "Oregon only" or a brief written request. The 1981 Oregon tax packets explain extensions in more detail.

Questions?

Call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

March 1981

Income tax appeal procedure

If you believe the Oregon income tax you owe is incorrect, or if you have been denied an income tax refund or a Homeowner and Renter Refund Program (HARRP) refund, you may ask for a review of your case. This circular will explain your rights and the procedures you must follow. Generally, an appeal must be in writing and must be filed within a certain amount of time. The time limit depends upon the type of tax assessment.

What may be reviewed?

Most reviews start when the Oregon Department of Revenue has:

- sent you a notice asking you for more income tax than you believe you owe; or
- denied or adjusted an income tax refund or a Homeowner and Renter Refund Program (HARRP) claim you believe you are entitled to.

How to have your case reviewed

To begin the review process, you must send a letter to the Oregon Department of Revenue explaining why you object to the department's action. You may request an informal conference with a revenue department conference officer to discuss your case. If you don't want a conference, or if you disagree with the outcome of the conference, you may appeal to the director of the Oregon Department of Revenue.

Your conference

The department will arrange a meeting for you with a conference officer. The conference officer will go over your tax return or refund claim and review the department's action. You will have the opportunity at the conference to present your reasons for objecting to the action. After the conference, the conference officer will notify you of his or her decision.

If the conference officer decides you still owe more income tax, you will receive a formal assessment of tax. If the amount of contested tax is $500 or less (not including penalties or interest), you may appeal either to the director of the Oregon Department of Revenue or to the Small Claims Division of the Tax Court. If the amount of contested tax (not including penalties and interest) is more than $500, you may appeal only to the director of the Oregon Department of Revenue. In either case, you must appeal within 90 days after an income tax or HARRP refund adjustment becomes final. The refund adjustment becomes final 30 days after you receive the adjustment. If you requested a conference before that time, the adjustment becomes final on the date the conference officer notifies you of his or her decision.

Your appeals hearing

Generally, a hearing is held after a conference, if the dispute wasn't resolved at the conference. But you may request a hearing without a conference if you receive a notice of assessment or a letter denying or adjusting your refund. Carefully read any notice or letter to determine how many days are allowed by law to file an appeal. The department will notify you of the time and place for the hearing. It also will give you a brochure about how hearings are conducted. You will present your case to a department hearing officer. Bring with you any evidence to support your opinion. You may represent yourself or be represented by a lawyer or an accountant. The hearing officer will make a recommendation to the department director, based on evidence presented at the hearing. The department will notify you of the director's decision by mail.

If you disagree with the director's decision and wish to appeal further, you may take your case to the Oregon Tax Court and from there to the Supreme Court of Oregon.

Your other appeals option

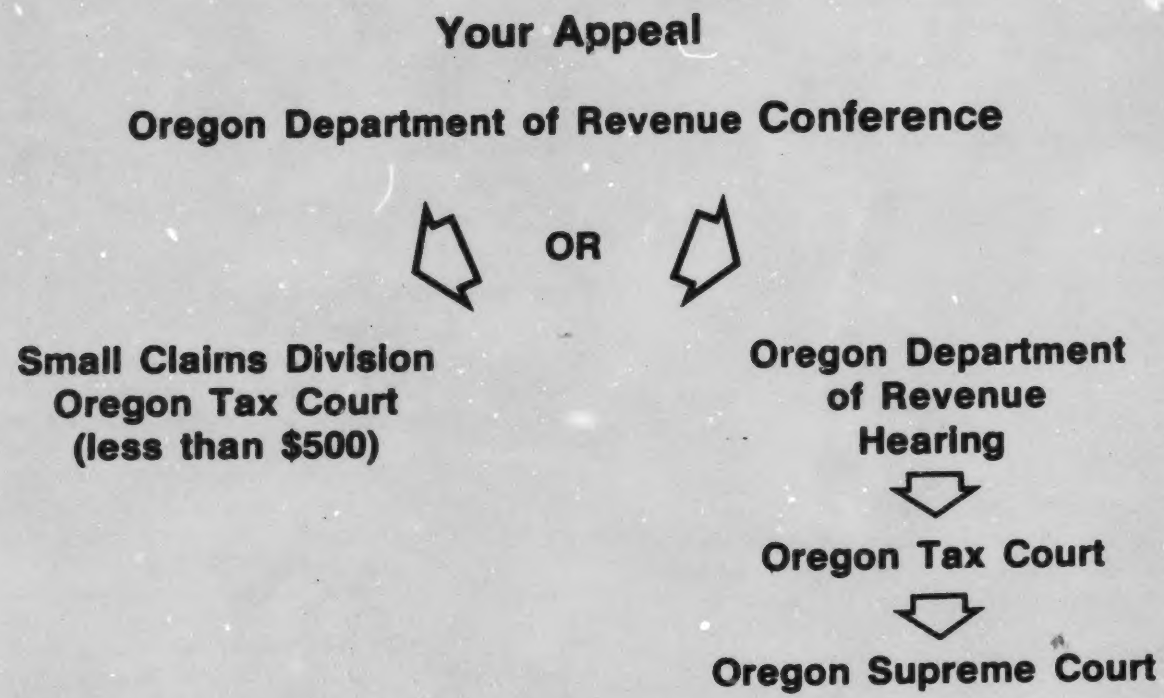
If you don't want to appeal to the director of the Oregon Department of Revenue, and if the amount of money involved is $500 or less (not counting penalties or interest), you may appeal directly to the Small Claims Division of the

Oregon Tax Court. But the decision from that appeal is final. You cannot appeal to a higher court.

The diagram below shows your two courses of action on income tax appeals.

For more information

Write to: Oregon Department of Revenue, Salem, OR 97310. Or call: Conference Section, 378-8048; Appeals Division, 378-3738.


Your Appeal
Oregon Department of Revenue Conference
OR
Small Claims Division Oregon Tax Court (less than $500)
Oregon Department of Revenue Hearing
Oregon Tax Court
Oregon Supreme Court

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Home care for the elderly

If you pay expenses for the care of an elderly person, you may be eligible for this credit. The care must keep the elderly person from being placed in a nursing home. You and the elderly person must meet certain qualifications to be eligible for the credit.

Who may claim the credit?

You may claim the credit only if your household income is less than $17,500. Household income is the total taxable and nontaxable income of a husband and wife. Your 1981 Oregon full-year resident tax packet explains household income on page 39.

Who is a qualified elderly person?

A qualified elderly person is someone who meets **all** of the following requirements:

1. Is at least 60 years old.
2. Isn't in a nursing home or mental institution.
3. Doesn't receive medical assistance from the state Adult and Family Services Division.
4. Qualified for Oregon Project Independence during the tax year. This program is designed to keep elderly persons from going to nursing homes unnecessarily. To qualify for the program the elderly person must have severe problems with communication, mobility, managing a household, nutrition, personal relationships, managing money, health or other problems caring for oneself. These problems must be severe enough that the elderly person might normally be placed in a nursing home.
5. Doesn't receive services from Oregon Project Independence. Services include housekeeping, homemaking and home health.
6. Has a household income of $7,500 or less. The support you provided for the elderly person is considered a gift. The total gifts received by the elderly person, less $500, must be included in the elderly person's household income.

What are qualifying expenses?

You may claim food, clothing, medical and transportation expenses you paid for the elderly person during the year. The amount you paid for lodging doesn't qualify. Transportation expenses for medical and personal needs, such as shopping, qualify.

You may claim only the costs paid after the person became 60 years old. Don't claim costs paid while the person received benefits from Oregon Project Independence or medical assistance from Adult and Family Services. Don't claim costs paid while the person was in a nursing home or mental institution. You must subtract any reimbursement from insurance or from the elderly person when you figure the costs you paid.

Claiming the credit

The credit is equal to the lesser of 1) $250 or 2) 8 percent of the expenses paid or incurred during the tax year. To claim the credit, the Oregon Department of Human Resouces must certify that the elderly person qualifies. Contact the Oregon Department of Revenue for Form 101-024. Instructions are on the form. Attach the completed form, showing the certification and expenses paid, to your Oregon income tax return.

Part-year and nonresidents

You may claim the full credit, subject to the limitations above.

Questions?

Contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Geothermal heating credit

Oregon allows a credit for connecting a residence you own to a geothermal heating system. **The system must be part of a geothermal heating district.**

What is a qualifying residence?

You may claim this credit for connecting an Oregon residence you own. The dwelling must be your principal residence. Or you must rent it to others to use as their principal residence. A mobile home or a floating home used as a principal residence qualifies.

The credit may be claimed for only one dwelling in any one year.

Amount of credit

Full-year residents - The credit is equal to 25 percent of your cost for materials and connection (not including your own labor). However, the credit may not exceed $1,000 or the amount of tax you owe.

Part-year residents and nonresidents - You may claim a percentage of the credit allowed a full-year resident. Your allowable percentage is on line 27 of Form 40NR.

Example - Mr. Jones, a nonresident, spent $3,500 to connect a rental unit he owns in Klamath Falls to the geothermal heating district's system. His allowable Oregon percentage on line 27 of his Form 40NR is 20 percent. Here's how he computes his credit:

The lesser of:

1) Connection costs	$3,500	
× 25 percent	.25	$ 875
or		
2) Maximum credit		1,000

Part-year and nonresident credit

lesser of 1 or 2	875
Allowable percentage	.20
Allowable Oregon credit	$ 175

Carryover

Your credit can't exceed the amount of tax you owe. If the credit is more than the amount of tax you owe, the extra amount may be carried forward. You may claim it as a credit against your Oregon tax for each of the next five years. If the excess is not used within five years, it is lost.

There are no carryover provisions for connection costs you lost because you connected more than one dwelling in a year or because you exceeded the $1,000 limit.

Alternative energy device credit

You may not claim the credit for connecting to a geothermal heating system if you are also claiming those same costs for an alternative energy device credit.

When to claim the credit

You must claim the credit for the year you connect to the system, even if the cost was not completely paid in that year. But to get the credit, you must have incurred an obligation for payment. An obligation for payment includes signing an invoice, sales slip or purchase order. It also includes charging the purchase to your customer credit account or credit card account.

Questions?

Contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
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OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Estimated tax

The 1981 Oregon Legislature passed a law requiring some taxpayers to make quarterly estimated tax payments. This brings Oregon's estimated tax program in line with the federal government's program. Not everyone has to pay estimated tax. Read the following information to see if you need to make estimated tax payments.

What is estimated tax?

Basically, estimated tax is the amount of tax you expect to owe when you file your 1982 Oregon income tax return. It's the tax you owe in addition to any tax your employer withholds from your wages. The tax you owe is on the line of your Oregon income tax return labeled "tax-to-pay."

Should I pay estimated tax?

The following people may need to pay estimated tax:

- Wage earners—who don't have enough tax withheld from their wages. If you expect to owe $100 or more in addition to the tax already withheld from your wages, you may need to pay estimated tax. You have two choices: 1. Increase the amount your employer withholds from your wages. 2. Or pay estimated tax in addition to the usual amount withheld from you wages.
- Self-employed people—who don't have Oregon tax withheld from their income and expect to owe $100 or more.
- Others—who expect to owe $100 or more and don't have Oregon tax withheld from their income, such as pensions, interest or dividends.

Your income also determines if you pay estimated tax. Use the chart on the back of this circular for more details. Answer the questions on the chart and follow the arrows only until you find you either must file OR you don't need to file.

Farmers and fishers

Most farmers and fishers don't need to pay estimated tax. To decide if you need to pay estimated tax, figure both your 1981 gross income and your estimated 1982 gross income. If at least two-thirds of your 1981 gross income or two-thirds of your estimated 1982 gross income is from farming or fishing, you don't need to pay estimated tax.

How to file your estimated tax

Complete an Oregon Estimated Tax Form 40ES. Forms and instructions are in the Oregon Estimated Tax packet. File separately or jointly with your spouse—the same way you file your Oregon income tax return. You may file a joint Estimated Tax Form 40ES with your spouse unless:

1. You or your spouse are nonresident aliens.
2. You are legally separated.
3. You have different tax years. For example, you use a calendar year and your spouse uses a fiscal tax year.

The Oregon Department of Revenue is mailing Estimated Tax Packets to taxpayers who may need to pay estimated tax, based on past tax returns.

If you don't get your Oregon Estimated Tax Packet by the end of February, contact us. Write to Forms, Oregon Department of Revenue, Revenue Building, Salem, OR 97310. Or call **TAX HELP:**

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free)	1-800-452-2838
Outside Oregon (not toll free)	1-503-371-2244
TTY (teletypewriter for those with speech and hearing problems)	373-1826

Estimated tax due dates

First-quarter estimated tax
—due April 15, 1982

Second-quarter estimated tax
—due June 15, 1982

Third-quarter estimated tax
—due Sept. 15, 1982

Fourth-quarter estimated tax
—due Jan. 17, 1983

Interest

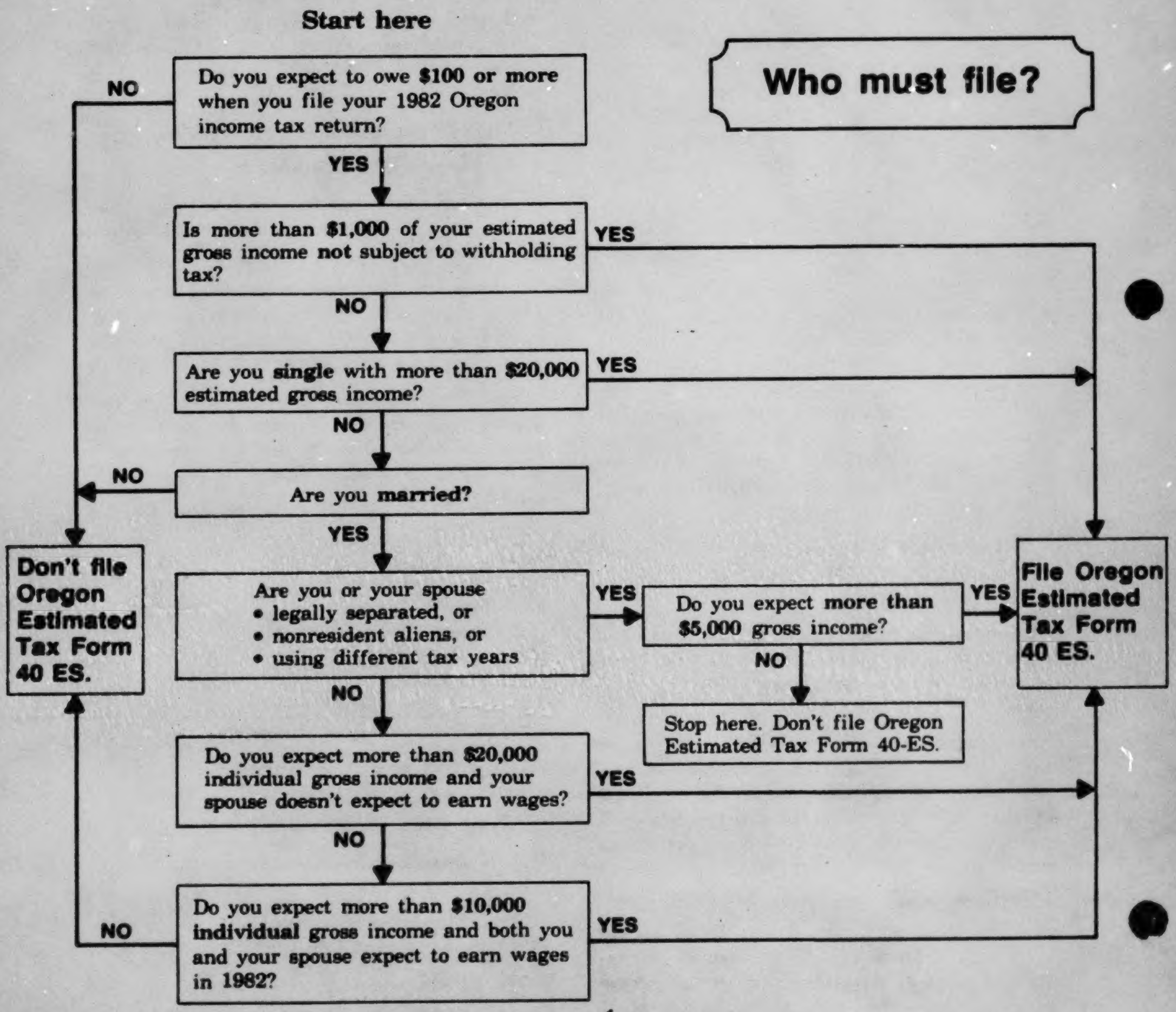
If you underestimate the tax you owe or if you don't pay estimated tax, you will be charged interest. Interest is 1.5 percent per month or part of a month. Interest starts on the day after your estimated tax payment is due. Interest will be charged each month or part of a month until we receive your payment or until April 15, 1983, whichever comes first. After that time you will be charged interest and penalty for delinquent tax.

You had an underpayment if you paid less than 80 percent of the tax due on each payment date. If you had an underpayment, you must file Oregon Form 10, Underpayment of Oregon Estimated Tax.

There are exceptions to paying interest on underpayments. The exceptions for Oregon are the same as the federal exceptions. To qualify for one of the exceptions, you must file Form 10 with your 1982 Oregon income tax return. Call **Tax Help** if you need more information.

To get Form 10, write to: Forms, Oregon Department of Revenue, Revenue Building, Salem, OR 97310.

Use the chart to see if you need to pay estimated tax. Follow the arrows only until you find you either must file or you don't need to file.


Start here
Who must file?
Do you expect to owe $100 or more when you file your 1982 Oregon income tax return?
NO
YES
Is more than $1,000 of your estimated gross income not subject to withholding tax?
YES
NO
Are you single with more than $20,000 estimated gross income?
YES
NO
Are you married?
NO
YES
Don't file Oregon Estimated Tax Form 40 ES.
Are you or your spouse
• legally separated, or
• nonresident aliens, or
• using different tax years
YES
Do you expect more than $5,000 gross income?
YES
File Oregon Estimated Tax Form 40 ES.
NO
Stop here. Don't file Oregon Estimated Tax Form 40-ES.
NO
Do you expect more than $20,000 individual gross income and your spouse doesn't expect to earn wages?
YES
NO
Do you expect more than $10,000 individual gross income and both you and your spouse expect to earn wages in 1982?
NO
YES

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Art contribution subtraction

Oregon allows a subtraction to artists who contribute their own works of art to a recognized charitable organization or governmental unit.

What qualifies as a 'work of art'?

The art object must be a painting, sculpture, photograph, graphic or craft art, industrial design, costume or fashion design, tape or sound recording or film.

Restrictions on the use of donated works of art

A charitable orgazination must use the art for the same purpose or function as qualifies it for its federal tax exemption. For example, a charitable organization that is exempt because it is organized exclusively for educational purposes must use the art for an educational purpose. It can't just sell the art to use the proceeds for an educational purpose.

A governmental unit doesn't have to meet this requirement.

How to calculate the subtraction

The subtraction is equal to the difference between:

1) the amount that would have been allowed as an itemized deduction if you could deduct the fair-market value of the art subject to the contribution limitation; and

2) the amount actually allowable as an itemized deduction under federal tax law.

Further qualifications

You must itemize deductions on your Oregon return to claim this subtraction. Contributions to some organizations are limited to 50 percent of your Oregon adjusted gross income. Contributions to other organizations are limited to 20 percent of your Oregon adjusted gross income. Use these limits when you figure the deduction using fair-market value. **Attach a copy of an appraisal report showing the fair-market value of the art at the time of the contribution.**

Example:

Ron Baldwin's Oregon adjusted gross income is $10,000. He donated one of his paintings to the State of Oregon for display in a building. The painting has a basis (cost) of $300 and a fair-market value of $6,000. Here's how he computes his subtraction:

1) Amount allowed as a charitable contribution if computed using fair-market value	$6,000	
(limited to 50% of $10,000)	5,000	
		$5,000
2) Amount allowed as a charitable contribution on federal Schedule A (basis)		(300)
Baldwin's subtraction (1 minus 2)		$4,700

Questions?

If you have questions, call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Orgeon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

IC-118-81R

Salem, OR 97310

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Credit for tax paid to other states

If you are an Oregon resident who pays tax on the same income to both Oregon and to another state, you may be eligible for a credit on your Oregon income tax return. Nonresidents are not allowed a credit.

What taxes are eligible?

The income that is taxed by both Oregon and the other state must have been earned while you were an Oregon resident. The credit is allowed only for income taxes. It may not be claimed for sales tax, city tax, property tax or other taxes which are not based on income. Examples of taxes which aren't allowed are the Alaska school tax or the Idaho building fund tax.

Claiming the credit

You may claim this credit only after the taxes to the other state have been paid. However, you may apply the credit only to Oregon taxes assessed for the same year as the other state's tax. For example, taxes owed to Idaho for 1981 can be claimed only as a credit against 1981 Oregon taxes. If you claim the credit, you must include a copy of the other state's tax return and proof of payment with your Oregon return.

If you pay tax to another state for a prior tax year, you may amend your Oregon return for that year to claim the credit. The amended return must be filed within three years of the due date of the original return.

Amount of the credit

To determine your credit, compute your modified Oregon adjusted gross income (AGI). This is your Oregon AGI modified by Oregon additions and subtractions. Include only those Oregon adjustments that affect income in arriving at your Oregon AGI. Ignore the federal income tax subtraction and addition of Oregon tax included in itemized deductions.

Full-year resident credit

The credit for a full-year resident is either the tax actually paid to the other state or the amount computed using Formula I, whichever is less. (The credit can't exceed your Oregon tax.)

Formula I

$$\frac{\text{Oregon AGI taxed by both states}}{\text{Modified Oregon AGI}} \times \text{Your Oregon tax after subtracting all other credits}$$

Example: Ms. McGuire has, in addition to other income, $10,000 of rental income taxed by both Oregon and another state. Her income tax paid to the other state is $300. Her total Oregon tax after credits is $2,000. She computes her allowable credit this way:

Adjusted Gross Income (from federal return)	$40,000
Plus All Savers certificate interest received (Exempt on Federal return)	+ 1,000
Oregon Adjusted Gross Income	$41,000
Modifications	
Less U.S. bond interest	− 6,000
Less Oregon public retirement income	− 2,000
Plus California municipal bond interest	+ 17,000
Modified Oregon adjusted gross income (AGI)	$50,000

Using Formula I:

$$\frac{\$10{,}000\text{ (rental income)}}{\$50{,}000\text{ (modified AGI)}} \times \$2{,}000 = \$400$$

(Oregon tax after credits)

Since the allowable credit is the lesser of the amount figured by Formula I or the actual tax paid, Ms. McGuire claims $300 (actual tax paid).

Part-year resident credit

Part-year residents must make one more computation. The credit for part-year residents is the smallest amount calculated with Formula I, Formula II or the tax actually paid to the other state. (The credit can't exceed your Oregon tax.)

Formula II

$$\frac{\text{Oregon AGI taxed by both states}}{\text{Total income on tax return of other state}} \times \text{Tax due other state after credits}$$

Credit versus itemized deduction

You cannot claim both a credit and a deduction for taxes you paid to another state. If you itemized deductions and you want to claim the credit, add back the amount of tax you subtracted as an itemized deduction or your tax liability to the other state, whichever is less.

Example 1: Mr. Jones may claim a credit of $100 for taxes paid to Idaho on his 1981 Oregon return. His Idaho income tax is $125. He claimed $75 for 1981 Idaho tax as an itemized deduction. He must add back $75 on his 1981 Oregon return. The remaining $50 of his Idaho tax liability must be added back on his 1982 Oregon return if it is deductible that year.

Example 2: The situation is the same as in Example 1 except Mr. Jones deducted $150 of 1981 Idaho tax. He must add back his Idaho tax liability of $125. The $25 refund of Idaho income tax must be included in Oregon income in 1982 if it is included in federal income.

Questions?

Call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Alternative energy devices

Oregon has a personal income tax credit for residents who install alternative energy devices in their homes. The credit, established by the 1977 Oregon Legislature, was expanded by the 1979 and 1981 legislatures to include additional types of devices and to make more people eligible for the credit.

This circular explains how to claim the credit on your Oregon income tax return.

What devices qualify for the credit?

Alternative energy devices that qualify for the credit are solar, wind, geothermal or water devices that provide at least 10 percent of the total energy requirements of a home. Water operated devices became eligible as of Jan. 1, 1979.

Also eligible starting in 1979 are solar water heating systems that provide at least half the domestic water heating requirements of a home.

Beginning in 1982, ground water heat pumps are eligible for the credit.

The Department of Energy must certify the plans before you install the device. See "How to claim the credit."

What property qualifies?

Beginning Jan. 1, 1979, the credit applies to devices installed in your principal residence or a second residence, like a vacation home. It also applies to devices on rental property used as residences and to devices serving more than one residence.

How much is the credit?

The tax credit for each dwelling using the device is $1,000 or 25 percent of the cost of the device, whichever is less. For example, a device that serves a single family residence is eligible for a 25 percent credit, up to $1,000. However, a device serving a duplex is eligible for a credit up to $2,000.

You may claim a credit for only one device in any one year. Usually you claim the credit for the tax year in which the device is first placed in service. But starting in 1982, you may claim the credit for the tax year you get preliminary certification as long as the device is placed in service by April 1 of the following year.

The credit cannot exceed the amount of tax you owe. If the credit is more than the tax you owe, the extra amount can be carried forward. You can claim it as a credit for each of the next five years until it is used up.

Who may claim the credit?

You may claim the credit if you are the owner or the contract purchaser of the residence where the device is installed. Beginning in 1979, renters may also claim the credit. The person who claims the credit must have paid all or that part of the cost of the device for which the credit is claimed. Persons who share the cost of the device also share the credit.

A person who installs a device but does not use the residence may still claim the credit if he or she rents it to someone who uses it as a principal or secondary residence.

An owner or builder who does not live in or rent out the dwelling may transfer the device's eligibility certificate (see below) to the first purchaser of the home. The first purchaser may then use the credit if he or she qualifies.

How to claim the credit

The Oregon Department of Energy must certify your device before you install it. You may get an application from the Oregon Department of Energy, 102 Labor and Industries Building, Salem, OR 97310. You may also get the application from Energy Extension Service offices. Fill out the application and return it to the Department of Energy.

The Department of Energy will review your application. If the system qualifies, the department will prepare a preliminary tax credit certificate. The department will send you this certificate and an attachment. You may then go ahead with the installation.

Beginning in 1982, some dealers who sell and install alternative energy devices can apply for a dealer system certificate. You don't need to get a preliminary certificate for an alternative energy device sold and installed by a dealer who has a valid dealer system certificate.

When installation is complete, fill out the attachment that was on your preliminary certificate. Show the final costs and the date the device was put into service. Then return the attachment to the Department of Energy. The department will send you the "Claim for Tax Credit" form. Attach this form to your tax return.

How does this affect property values?

The Legislature provided a property tax exemption for alternative energy devices. The assessed value of your property can't be increased because you installed an alternative energy device.

The property tax exemption applies to solar heating and cooling devices beginning in 1976. The property tax exemption applies to wind, geothermal, water and methane gas systems used to heat, cool or generate electricity, beginning on Jan. 1, 1980.

Questions?

For more information on alternative energy devices, call the Oregon Department of Energy, toll free statewide at 1-800-452-7813, or in Salem at 378-4040.

For more information on the tax credit, contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Adoption expenses

On your Oregon income tax return, you may subtract expenses you paid for adopting a child. You may qualify for the subtraction if you itemize your deductions on your Oregon return. You can't subtract medical expenses already claimed as itemized deductions. Attach to your Oregon return copies of receipts and canceled checks to verify the adoption expenses you claim.

Oregon didn't adopt any new federal laws passed after Dec. 31, 1980. So, Oregon doesn't allow the new federal itemized deduction for adoption of a child with "special needs." Oregon does allow a subtraction for the expense of adopting any child. In this way, Oregon's adoption subtraction applies to more people than the federal itemized deduction.

Did you claim adoption expenses (other than medical expenses) on your federal Schedule A (schedule of itemized deductions)? If so, you must fill out another Schedule A for Oregon. Don't include any federal adoption expenses on the Oregon Schedule A. Write "OREGON" across the top of the schedule. Put it behind the copy of your federal return (Form 1040) you send with your Oregon return. Fill in the itemized deductions you figure on your "Oregon Schedule A" (line 39) on Form 40, line 20, or Form 40NR, line 40.

WHAT ARE ADOPTION EXPENSES?

1. Attorney fees

2. Court costs

3. Adoption filing fees

4. Fees charged by a social or adoption agency or doctor's adoption fees

5. Medical expenses you paid for the natural mother or child, such as:

    a. Hospital costs
    b. Prenatal care costs
    c. Doctor's fees
    d. Laboratory fees and medical test expenses
    e. Pediatric expenses

Transportation expenses do not qualify for the Oregon subtraction.

(over)

Salem, OR 97310

WORKSHEET

1. Copy the amount from Oregon Schedule A, line 7 $ ____________
2. Add your adoption expenses paid in 1981 + ____________
3. Balance (Line 1 plus line 2) ____________
4. Less 3 percent of your Oregon adjusted gross income, Oregon Form 40, line 5 or Oregon Form 40NR, line 26a − ____________
5. Balance (Line 3 minus line 4) ____________
6. Less the amount of medical expenses from your Oregon Schedule A, line 9 − ____________
7. Your Oregon adoption subtraction (Line 5 minus line 6). Fill in this amount on line 16 of your Oregon Form 40. ____________

EXAMPLE: The Smiths, full-year Oregon residents, had adoption expenses qualifying for the Oregon subtraction of $1,200. The itemized deductions on their federal Schedule A were $4,000. They had claimed $600 of their adoption expenses on their federal Schedule A. So they made out a separate Oregon schedule A showing only $3,400 of itemized deductions, ($4,000 − $600 = $3,400) and no adoption expenses. The medical expenses on Oregon Schedule A, lines 7 and 9, were $500 and $0. They had an Oregon adjusted gross income of $20,000.

They would figure their Oregon adoption expense subtraction this way:

1. Line 7, Oregon Schedule A	$ 500
2. Add adoption expenses	+ $1,200
3. Balance	$1,700
4. Less 3 percent of $20,000	− 600
5. Balance	1,100
6. Less line 9, Oregon Schedule A	− 0
7. Adoption subtraction	$1,100

Part-year and nonresidents

If you are a part-year resident, you may claim the subtraction for adoption expenses you incurred while you were an Oregon resident. Nonresidents can't claim the adoption subtraction. Fill in the subtraction on Form 40NR, line 37.

Questions?

If you have questions, call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

OREGON
DEPARTMENT OF REVENUE

Information Circular

December 1981

Severely disabled exemption

If you are severely disabled, you may be allowed an additional personal exemption of $1,000 on your Oregon income tax return.

Who is a severely disabled person?

You are severely disabled if you meet one of the following requirements at the end of your tax year:

1) Lost the use of one or both feet, or

2) Lost the use of both hands, or

3) Suffer from a condition that limits your ability to earn a living, maintain a household, or transport yourself without special equipment or outside help. Special equipment includes wheelchairs, braces, prostheses or special crutches. Outside help includes unrelated persons you employ to transport you or to maintain your house or yard.

How to claim the exemption

Check the "severely disabled" box along with your other allowable exemptions on your Oregon income tax return. Part-year and nonresidents also qualify for the additional exemption.

You must attach a letter from your physician or osteopath describing your physical disability each year you claim the exemption.

Your spouse may be entitled to the exemption

If your spouse is severely disabled, your spouse also may claim this exemption. If you are filing separate returns and you claim your spouse as a dependent, you may claim the additional exemption for your spouse if your spouse qualifies and has no gross income for the calendar year.

Questions?

Contact the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

IC-104-81R

Salem, OR 97310

OREGON
DEPARTMENT OF REVENUE

Information Circular

March 1982

Retirement income

This information will help you decide how to report your pension or annuity income on your Oregon income tax return. Although pensions and annuities are different, the term pension is used to describe both for Oregon returns.

Oregon tax laws generally follow federal laws on pensions.

Read one of these federal pamphlets to determine how to report your pensions. Pamphlets are available from the Internal Revenue Service (IRS).

1. Publication 17, Your Federal Income Tax
2. Publication 522, Disability Payments
3. Publication 567, Tax Information on Disability and U.S. Civil Service Retirement
4. Publication 575, Pension and Annuity Income
5. Publication 590, Tax Information on Individual Retirement Arrangements

What is taxable?

Federal income tax rules generally determine the amount of your pension that is taxed by Oregon. However, you may subtract certain pensions on your Oregon return that were taxed on your federal return. Did you receive a Public Employees Retirement System (PERS) pension from an Oregon city, county, school district or state government agency? If so, you may subtract on your Oregon return the amount included in your federal taxable income.

These pensions are not taxed on either your federal or Oregon income tax return:

Social Security
Veterans Administration
Supplemental Security Income
Welfare benefits
Railroad retirement

Federal government pensions

Did you work for the U.S. government and receive a pension? If so, you may be able to subtract up to $3,400 from taxable income on your Oregon return. Answer the following questions to see if you qualify.

1. Did you exclude all your retirement income on the federal return?
2. Is your household income $25,000 or more?
3. Are you under age 65 and receive military retirement?
4. Are you under the mandatory retirement age, receiving a disability pension and have not elected to have your disability pay taxed as an annuity?
5. Was the pension earned by your deceased spouse?

If you answered yes to any of the questions, you do not qualify. However, if every answer was no, you are eligible for the subtraction. A complete explanation of how to figure your subtraction is included in the Oregon income tax packets.

If both you and your spouse earned a federal pension, each of you is eligible for up to a $3,400 subtraction on your Oregon return. A pension earned by your deceased spouse doesn't qualify for the subtraction.

Railroad retirement income

Supplemental retirement income from railroad retirement may be subtracted on Oregon returns, if you included it in your federal taxable income.

Individual and private pensions

Contributions to an individual retirement account (IRA), a self-employed retirement account (KEOGH) and a simplified employee plan (SEP) are not taxed at the time you make them. These pensions are taxed as ordinary income when you begin receiving the pension payments.

As a result of action by the 1982 special session of the Legislature, Oregon law follows federal law on these pensions.

Important note

The 1982 special session of the Legislature adopted new federal law on individual pension plans retroactive to tax year 1981. This change was made after the 1981 Oregon income tax packets were distributed. Oregon law on IRAs, KEOGHs and SEPs now follows federal law. You may need to amend your 1981 Oregon return if: 1) you received an early distribution of benefits from a KEOGH plan; 2) you transferred bonds from a qualified purchase plan to an IRA.

Lump-sum payments

Lump-sum distributions from a pension, stock bonus or profit sharing plan may qualify for special tax treatment. Only 40 percent of the distribution you received for active participation in such a plan through 1973 is taxed because it is treated as capital gains income. The portion for participation from 1974 until the present is all taxed because it is treated as ordinary income.

If you elect to use the special 10-year averaging method on your federal return, part or all of your distribution will not be included in federal adjusted gross income. All ordinary income and 40 percent of capital gains that you didn't include in federal adjusted gross income must be added back to income on your Oregon return.

Pensions on your Homeowner and Renter Refund Program (HARRP) claim

Homeowner and Renter Refund Program (HARRP) property tax refunds are based on total household income. Virtually all pensions must be counted in figuring your HARRP refund. This means that although some government pensions aren't taxed by Oregon, they must be included in household income to figure your HARRP refund. An exception is recovery of amounts you paid into your pension plan that were already taxed.

Questions?

Call the Oregon Department of Revenue:

Portland:	224-8050
Salem:	371-2244
Eugene:	345-7577
Elsewhere in Oregon (toll free):	1-800-452-2838
Outside Oregon (not toll free):	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems):	373-1826

Information Circular

January 1981

OREGON
DEPARTMENT OF REVENUE

Property tax relief for renters

There are now two property tax relief programs for renters in Oregon. The programs are:

1. Homeowner and Renter Refund Program (HARRP).

2. Property Tax Relief Plan (PTR).

HARRP is for low and middle-income renters. PTR is for most Oregonians. There is no income limit for eligibility in this plan.

You may be eligible for both programs. Read the following information to see if you qualify for one or both programs.

Homeowner and Renter Refund Program (HARRP)

You qualify for the Homeowner and Renter Refund Program (HARRP) if:

1. You rented an Oregon residence anytime in 1980; and

2. Your residence was subject to property tax; and

3. You didn't own your residence on December 31, 1980; and

4. Your annual household income was less than $17,500.

Your HARRP refund is based on your income and the amount of rent you paid. You will receive a refund of 17 percent of your 1980 rent or the "maximum refund" for your income level, whichever is less.

The 1979 Oregon Legislature increased the maximum amount you can receive. The maximum range is from a high of $375 to a low of $18 for qualifying renters.

Property Tax Relief Plan (PTR)

You qualify for PTR if:

1. You rented an Oregon residence anytime during 1980; and

2. The residence was subject to property tax; and

3. You didn't own your residence on December 31, 1980.

Renters who only qualify for the Property Tax Relief Plan will get a refund of 4.7 percent of their 1980 rent. The maximum refund is $400.

If you qualify for both HARRP and PTR, you may get benefits under both programs. But you can't get back more than 17 percent of your rent. That's the estimated amount of rent that goes for property taxes.

Persons who are already getting back 17 percent of their rent under HARRP won't get additional benefits under PTR.

How to file

Refunds are not automatic. You must file a claim (Form 70R) to receive a refund. Form 70R and instructions for these programs are included in the 1980 Oregon full-year resident income tax packet.

You should receive a copy by mail if you are an Oregon resident. You can also get copies at most banks, post offices, courthouses and Oregon Department of Revenue offices after January 1, 1981. You only need to file one claim each year, even if you qualify for more than one program.

Attach Form 70R to your 1980 Oregon income tax return, if you file a return. If you don't have to file an income tax return, send your Form 70R to REFUND, PO Box 14700, Salem, OR 97310.

Send in your completed claim form by April 15, 1981.

Refunds

The Oregon Department of Revenue will figure your refund and send you your check in October. Even if you are eligible for both programs, the refunds will be sent to you in one check.

(over)

Mobile home renters

You qualify for renter relief if you rent both your home and space. If you own your mobile home or space or both, see the information circular, "Property Tax Relief for Homeowners." The circular (IC-102-81) is available by contacting the Oregon Department of Revenue.

What is "household income"?

Household income is the total income of you and your spouse if you live in the same household. It includes, but is not limited to:

wages
salaries
tips
net business and farm income
interest
dividends
pensions (taxable and nontaxable)
rents
Social Security payments
workers' compensation
child support
welfare and unemployment payments
inheritances
gifts and grants of more than
    $500 per year
life insurance payments
strike benefits
military pay and benefits
veteran's benefits
each type of net loss, limited
    to $1,000
alimony

Income does not include food stamps, WIC vouchers, welfare payments for foster child care, or any governmental grant which you must use for rehabilitation of your homestead.

Questions?

For more information, contact the Oregon Department of Revenue:

Portland:	229-5116
Salem:	378-3366
Eugene:	686-7718
Toll free elsewhere in Oregon:	1-800-452-2838
Outside Oregon (not toll free):	(503) 378-3366
TTY (teletypewriter for those with speech and hearing problems):	(503) 373-1826

PUBLICATION 17½

Oregon individual income tax guide for tax year 1981

OREGON
DEPARTMENT OF REVENUE

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REVENUE PUBLICATIONS

Oregon Individual Income Tax Guide for Tax Year 1981

Oregon's Individual Income Tax Guide, Publication 17½, supplements information in the 1981 Oregon income tax instruction packet and in the federal **Publication 17.**

We've updated **Publication 17½** to include information about new Oregon tax laws. Oregon didn't adopt new federal laws passed in 1981, so this edition of **Publication 17½** also includes a special section explaining how to treat "Oregon changes to federal income."

In response to your requests, we've also expanded the forms section. The forms section includes the new Oregon Depreciation Schedule, and Form 10, Underpayment of Oregon Estimated Tax.

This publication is a guide. It isn't a complete statement of laws and Oregon Department of Revenue rules. If you have questions, refer to the laws and rules.

For further information or forms, write to: Oregon Department of Revenue, Revenue Building, Salem, OR 97310.

Or call TAX HELP:

Portland	**224-8050**	**Elsewhere in Oregon (toll free)**	**1-800-452-2838**
Salem	**371-2244**		
Eugene	**345-7577**	**Outside Oregon (not toll free)**	**(503) 371-2244**
TTY (teletypewriter for those with speech and hearing problems)			**(503) 373-1826**

OREGON
DEPARTMENT OF REVENUE

Oregon Individual Income Tax Guide, Publication 17½, is published by the Oregon Department of Revenue, Salem, Oregon
December 1981

Summary of new laws effective 1981

TAXABLE IN OREGON!
ALL SAVERS CERTIFICATE

1981 OREGON TAX LAWS
1980 FEDERAL TAX LAWS

Oregon tax laws tied to 1980 federal tax laws. Most Oregon tax laws follow federal tax laws. But Oregon didn't adopt any new federal tax laws passed in 1981. **You may have Oregon changes to your federal income on your Oregon return.**

See information on:

- Interest you received from an All Savers Certificate, page 10.
- Changes in depreciation for Oregon, page 11.
- Other Oregon changes to federal income, pages 12 and 13.

U.S. public retirement income subtraction. This subtraction is only for the person who earned the pension—not for benefits to a surviving spouse. See page 20.

Estimated tax. Some taxpayers need to pay estimated tax. Payment due dates are now quarterly. See page 48.

Taxes paid to another country. If you qualify, you may subtract taxes paid to another country from your income, but you can't claim taxes paid to another country as a tax credit on your Oregon return. See page 30.

Political party checkoff. The $1 political party checkoff boxes aren't on the Oregon return this year. That law ended in 1980.

Oregon Arts Development Fund. You may use any part of your refund to help develop art activities or cultural facilities throughout Oregon.

Oregon Nongame Wildlife Fund. Now you may donate any part of your refund to protect nongame wildlife and its habitat.

Weatherization credit for 1981. You only may claim the credit if:

- Your home is heated with fuel oil, propane, butane or kerosene, OR
- You heat with wood and your back-up heat is a fuel listed above.

You must have installed weatherization materials before Sept. 1, 1981. See page 32.

Did you weatherize a home heated with electricity or natural gas? Ask your utility for information about its weatherization program. You may qualify for a cash payment from your utility for weatherization you did in 1981.

New filing deadline for Property Tax Relief (PTR). Are you a homeowner? Contact your county assessor by **April 15, 1982,** if:

- you move, or
- you no longer use your property as your principal living place (for example, you rent it out to others), or
- you've never filed for this plan before.

For more information, see page 42.

Criminal and civil penalties. A new law increases the criminal and civil penalties for tax evasion. This law affects the Oregon income tax return, and the Homeowner and Renter Refund Form 70R. For more information, see page 3.

Oregon statute of limitations

Refunds

Oregon law limits the time you have to claim a refund of Oregon tax. The allowable time depends on the circumstances in your case. The most common situations are described below.

Normal statute. You may file a refund claim up to three years after your return was filed or two years from the date your tax or a portion of it was paid, whichever is later. If you amend your return beyond the three-year period, your refund can't exceed the tax you paid during the two years preceding the date your claim was filed. (Use the due date of your return as the date you filed if you filed your return on or before the due date.)

Example 1: Bob Lark filed his 1976 Oregon return and paid his $300 tax due on time. In March of 1980, he discovered he had forgot to report some interest income. He amended his return. He paid $50 additional tax on April 1, 1980. In 1981, Mr. Lark discovered he had failed to claim a large charitable contribution he made during 1976. Mr. Lark must amend his return by April 1, 1982. But his refund will be limited to $50, the tax he paid within the last two years.

If the Oregon Department of Revenue adjusted items on your return and you lost your right to appeal those adjustments, you can't use the above rules. Once you lose your appeal rights, the adjustments are final. You can't claim a refund for those items.

Withholding tax refunds. You must file your return within two years after the due date of that return to claim a refund of your Oregon tax withheld from your wages. If you file more than two years late, the tax withheld from your wages can't be refunded and can't reduce tax you owe for another year. Even if you won't get a refund, make sure you file if your income exceeds the filing requirements.

Federal corrections. Sometimes when the IRS corrects your federal return, a similar change to your Oregon return will result in a refund. In that case, you have additional time to amend your Oregon return. You have one year from the date the federal change becomes final even if the three-year statute of limitations expired. If your federal return is changed, and you owe additional tax, read the section "Amended federal return, or federal audit."

Net operating loss carryback. You may claim a refund from a net operating loss carryback within three years after the due date of the return that showed the net operating loss.

Amended federal return, or federal audit

Any time your federal return changes and that change affects your Oregon return, amend your Oregon return. Oregon law requires you to file an amended return within 90 days if the change to your federal return results in $250 or more additional Oregon taxable income. It doesn't matter whether the federal change was due to a federal audit or amended federal return.

If you don't send a report or amended return within the 90-day period, the Oregon Department of Revenue has three years from the date the federal change becomes final to issue a deficiency notice.

Penalties and interest

Interest. Your 1981 tax payment is due April 15, 1982. Even if you get an extension to file your return, you still owe interest if you pay after that date. The interest is 1 percent of the unpaid tax for every month (or fraction of a month) after April 15, 1982. Figure your interest due and include it with your payment.

Penalties. You must pay a penalty if:
- you don't file by the due date, including extensions,

or
- you don't pay your tax by April 15, 1982.

The penalty is 5 percent of your unpaid tax.

If your return isn't filed within three months after the due date (including extensions), you must pay a failure-to-file penalty of 20 percent of the tax due. This penalty is in addition to the delinquency penalty described in the preceding paragraph.

A new law states you must pay an additional penalty of 25 percent of the deficiency after receiving a notice to file from the Oregon Department of Revenue if:
- you don't file a return within 30 days, or
- you don't prove you didn't need to file a return within 30 days.

If you fail to file or file a return with the intent to evade tax, you must pay a penalty of 100 percent of the deficiency. Total penalties for each deficiency can't be more than 100 percent of the deficiency.

If you file a false Homeowner and Renter Refund Program (HARRP) Form 70R, you're also subject to a civil fraud penalty of 100 percent of the refund you received in error.

The new law also increases the criminal penalties for tax evasion and for disclosure of tax information to a Class C felony. The new criminal penalties apply to all offenses committed after Nov. 1, 1981.

Example 1: Steve Smith filed his 1981 return with tax-to-pay of $1,000 on April 15, 1982. He paid the tax due on June 20, 1982. Here's how he figures interest and penalty:

Tax due	$1,000
Late payment penalty .05 × $1,000	50
Interest (3 months) .03 × $1,000	30
Total amount due	$1,080

Example 2: Gina Brown filed her 1981 return on July 16, 1982. She paid the tax due of $2,000 on that date. Here's how she figures her penalty and interest:

Tax due	$2,000
Penalty (0-3 months) .05 × $2,000	100
Penalty (more than 3 months) .20 × $2,000	400
Interest (4 months) .04 × $2,000	80
Total amount due	$2,580

Example 3: Susan Boyd failed to file her 1980 return by April 15, 1981. Her failure to file wasn't due to fraud or tax evasion. On June 20, 1982, she received a request to file from the Oregon Department of Revenue. Susan filed on Nov. 14, 1982, and paid $3,000 tax due. Here's how she figures her interest and penalties:

Tax due	$3,000
Penalty (0-3 months) .05 × $3,000	150
Penalty (more than 3 months) .20 × $3,000	600
Penalty (more than 30 days from notification) .25 × $3,000	750
Interest (19 months) .19 × $3,000	570
Total amount due	$5,070

Extensions of time to file

Need more time to file?

- If you need more time to file **both your federal and your Oregon tax returns:**
  - —You don't need a separate extension form for your Oregon return
  - —Just attach a copy of your federal extension form to the front of your Oregon return when you do file. If you file a six-month extension, the federal extension form must be stamped "approved" by the federal government.
  - —Oregon allows you the same extension you have for your federal return
  - —But the Oregon extension can't be for more than six months
  - —To avoid penalty and interest, mail any tax due by April 15, 1982. Attach payment to a separate copy of your federal extension.

- If you need more time to file **only your Oregon return:**
  - —Complete an extension request. You may use:
    - Federal Form 4868 for an automatic two-month extension

      OR
    - Federal Form 2688 for a six-month extension

      OR
    - You may send us a brief written explanation. Your explanation must include your name, address, Social Security number, the reason for the request and the length of extension requested (two-month or six-month.)
  - —To avoid penalty and interest, include payment of any tax due. Attach payment to your extension request.
  - —Mail your extension by April 15, 1982, to:

    Extension Clerk
    P.O. Box 14950
    Salem, OR 97310
  - —The Oregon Department of Revenue must approve your six-month extension. If we approve your request, we will return your request stamped "approved." If we deny your request, we will send you a denial letter.
  - —When you file your return:
    Attach a copy of your two-month or approved six-month extension to the front of your return.
    On Form 40, **line 39**; Form 40NR, **line 61**, include any amount you paid with your extension.

Appeal procedure

If you disagree with an Oregon Department of Revenue action you may appeal your case. The following situations commonly start the appeal process.

1) You disagree with a deficiency notice or an assessment notice from the Oregon Department of Revenue; or

2) You disagree with an adjustment to the refund you claimed.

There are two levels of appeal within the department.

Conference. The first step in the appeal procedure is a conference. If you received a **notice of deficiency**, you must request a conference within 30 days. If you don't contact us within that time, you will receive a notice of assessment.

If you get a **notice of refund adjustment,** you must request a conference within 30 days.

If you request a conference, you will meet with a conference officer from the Oregon Department of Revenue. You will present your reasons for objecting to the department's action. After the conference you will be notified of the conference officer's decision. If you are dissatisfied with the decision, you may request a hearing.

We won't postpone conferences requested by taxpayers except in emergencies or when postponement is in the best interest of the department.

Hearing. If you want to appeal a **notice of assessment**, you must request a hearing within 90 days of that notice.

If you want to appeal a **notice of refund adjustment**, you must request a hearing within 90 days after the notice becomes final. The notice becomes final: 1) 30 days after you receive it; or 2) when the conference officer notifies you of the decision if you requested a conference.

A hearing is with a hearing officer from the Oregon Department of Revenue, a representative from the department, yourself, and your authorized representative, if you wish that he or she accompany you. See ORS 305.230 for more information. Bring any information necessary to support your case. The department will notify you of the decision.

Further appeals. If you disagree with the hearing decision and wish to appeal further, you may take your case to the Oregon Tax Court. From there you may appeal to the Supreme Court of Oregon.

If you don't want a hearing, and the contested income tax involved is $500 or less (excluding any penalties or interest), you may appeal directly to the Small Claims Division of the Oregon Tax Court. There's no limit on the amount you can appeal for HARRP (Homeowner and Renter Refund Program). But if you appeal to the Small Claims Div, such an appeal is final and can't be appealed further. Forms are available at the Tax Court, 106 State Library Building, Salem, OR 97310, phone 378-4252.

For more information write to Publications, Oregon Department of Revenue, Revenue Building, Salem, OR 97310. Ask for the information circular "Income tax appeal procedure," IC-135-81R.

Why Oregon needs a federal return

Oregon adopted most federal income tax laws in 1969. Most information to support the amounts on your Oregon return is on your federal return. Even when Oregon law differs from federal law (such as changes, additions, subtractions and credits), we still need information from your federal return.

All Oregon returns, except the short form (40S), require a complete copy of the federal return. If you aren't filing a federal return, **attach a "dummy"** federal return to your Form 40 or Form 40NR. Fill out the "dummy" return as if it were an actual federal return.

Assembling your Oregon return

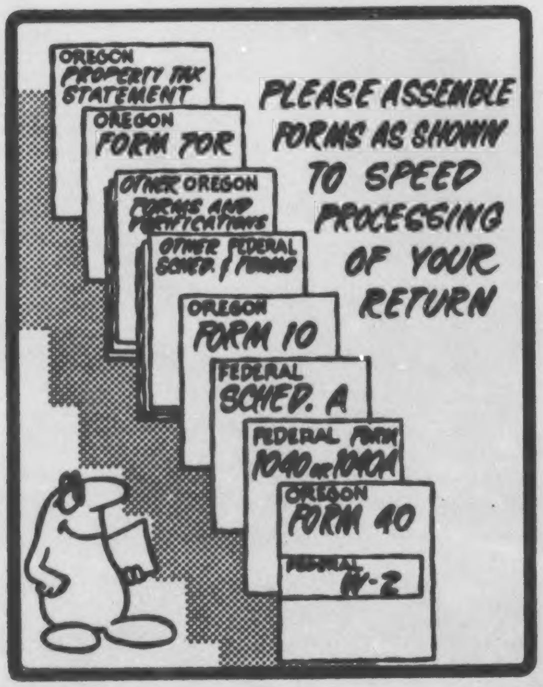
Assemble your Oregon return in the correct order to speed processing of your return. The correct order for 1981 returns is shown below (top to bottom).

If you file Form 40S:
1) Form 40S
2) Oregon forms and verification for credits claimed
3) Form 70R
4) Property tax statement (if homeowner or mobile home owner)

If you file Form 40 or Form 40NR:
1) Form 40 or Form 40NR
2) Federal Form 1040 or Form 1040A
3) Federal Schedule A (even if you itemize for Oregon only)
4) Form 10, Underpayment of Estimated Tax
5) Other federal schedules and forms (first in alphabetical and then in numerical order)
6) Other Oregon income tax forms and verification (including copies of other state returns if necessary)
7) Form 70R
8) Property tax statement (if homeowner or mobile home owner)

Other ways you can help processing:

- Attach readable Form W-2s where indicated on the front of your income tax return.
- If your return shows tax-to-pay, attach your check to the front of your return over your W-2 wage slips (one staple only).
- Staple all pages of the assembled return, except Form 70R and your property tax statement, in the upper left-hand corner (one staple only).
- Staple your property tax statement to your Form 70R. Place Form 70R at the back of your assembled return. But don't staple Form 70R to your return. Just fold Form 70R along with the rest of your assembled return before putting it in a stamped envelope.
- Recheck your return. Make sure your return is complete. Make checks payable to the Oregon Department of Revenue.
- Attach extensions of time-to-file to the front of your Oregon return.
- Don't include estimated tax Form 40ES with your income tax return.


OREGON PROPERTY TAX STATEMENT
OREGON FORM 70R
OTHER OREGON FORMS AND VERIFICATIONS
OTHER FEDERAL SCHED. / FORMS
OREGON FORM 10
FEDERAL SCHED. A
FEDERAL FORM 1040 or 1040A
OREGON FORM 40
FEDERAL W-2
PLEASE ASSEMBLE FORMS AS SHOWN TO SPEED PROCESSING OF YOUR RETURN

- Place sufficient postage on your envelope.
- Mail your forms to the correct Oregon Department of Revenue post office, Salem, OR 97310:
  Refunds PO Box 14700
  Paid returns PO Box 14555
  Estimated tax payments PO Box 14950

Oregon residency

General rule. Oregon taxes all the income of residents. It also taxes any income from Oregon sources earned by nonresidents.

An Oregon resident is someone who is **domiciled** in this state. An Oregon resident may also be someone who:

1) isn't domiciled in Oregon, but

2) maintains a place of abode in Oregon and

3) spends more than 200 days in this state during the taxable year.

A fraction of a day is considered a whole day when figuring the 200 days. We won't consider you a resident if you're in the state for a temporary or transitory purpose. The burden of proof is on you.

Consider both your domicile and the place where you live to determine how you are taxed.

Domicile. Domicile is the place you consider to be your home and the place you plan to return to from an absence. Intent is the deciding factor when you determine your domicile. **The law assumes you have a domicile somewhere. It also assumes you have only one domicile. Domicile is a tax-law concept. Domicile is not the same as home, abode or residency.**

Home. If you have one home, your domicile is generally where that home is located. If you own two homes, your domicile follows your center of activity. To determine your center of activity, consider: the physical characteristics of the place, the time you spend there, things you do there, persons and property there, your attitude toward the place, and your intention to return to the place when you are away.

Family relations. Generally, spouses living together have the same domicile. The domicile of minor children is determined by the domicile of the person who has legal custody of the children.

When living apart, a husband and wife may establish their own domiciles if they meet the requirements for a change of domicile.

Change of domicile. Intent is the most important factor to determine a change of domicile. If intent relies on uncertain events, you haven't changed your domicile. Once domicile is established, it's never lost until all the following happen:

1) You intend to abandon the old domicile; and

2) You intend to acquire a specific new domicile; and

3) You are physically present in the new domicile.

The important points are 1) physical presence at a new dwelling and 2) the intention to make the new dwelling a home.

Military. Military personnel are generally considered to be domiciled in the state where they joined the service. Military assignment doesn't establish domicile.

As a member of the armed forces, you may establish a new domicile during a tour of military duty if you meet the requirements for a change of domicile.

Oregon residents not living in Oregon. While domiciled in Oregon, you will be taxed as a nonresident if you meet all the following requirements:

1) You don't maintain a permanent place of abode in Oregon for yourself or for your family during any part of the year; and

2) You maintain a permanent place of abode outside Oregon during the entire year; and

3) You spend less than 31 days of the year in Oregon.

Nonresidents living outside Oregon. If you work in Oregon but live in another state, you are considered a nonresident and taxed only on income from Oregon sources.

Community-property income. If you are a resident of Oregon and your spouse is a resident of a state with community-property laws, you may be subject to tax on part of your spouse's income.

Community-property laws in the state where your spouse lives determine if you are taxed on any of your spouse's income.

For example, Washington law recognizes the right of a husband and wife to keep separate earnings, as long as the earnings don't involve income from real property. If your spouse lives in Washington, and you have an agreement to keep control over your own earnings; you may not be subject to Oregon tax on part of your spouse's earnings.

Filing for military personnel

Nonresidents stationed in Oregon. Oregon doesn't tax your military income if you are a nonresident stationed in Oregon. See Oregon Residency, page 6, for more information. If you or your spouse have other income from Oregon sources, that income is taxed. That includes rental income, business income, wages earned in Oregon and gain from the sale of Oregon property. It doesn't include personal savings account interest. It also doesn't include dividends except from a Subchapter S corporation with income from Oregon sources.

If you or your spouse have income subject to Oregon tax, file Form 40NR, reporting only the taxable income. Follow the instructions for a nonresident. Since none of your military pay is taxed by Oregon, you can't claim the $3,000 active duty pay subtraction.

Oregon residents stationed in Oregon. Oregon taxes your military income if you are an Oregon resident stationed in Oregon. But you may claim up to $3,000 of active duty pay as a subtraction on your Oregon return. File Form 40.

Oregon residents stationed outside Oregon. If you are an Oregon resident joining the military, you don't lose your Oregon domicile. But for income tax purposes you will be taxed as a nonresident if:

1) You don't maintain a personal residence in Oregon for yourself or for your family during any part of the year; and

2) Your personal residence is outside Oregon the entire year (barracks qualify as a personal residence); and

3) You spend less than 31 days in Oregon during the tax year.

If you meet all previous three requirements, Oregon won't tax your military pay. Oregon will tax only income from an Oregon source, such as income from an Oregon business or the sale or rental of Oregon property.

If Oregon tax was withheld from your military wages, file Form 40NR to claim a refund. Fill in -0- on the line for wages if your income is only from military wages. Label it "military nonresident." Follow the remaining line instructions for a nonresident. Attach your military W-2 form and a complete copy of your federal return.

If you expect to meet the requirements again next year, ask your disbursing officer or paymaster to stop withholding Oregon tax. Your paymaster has the necessary forms and information.

If you don't meet the requirements, follow the instructions for "Oregon residents stationed in Oregon."

Filing status

GENERAL RULE

Your filing status on your Oregon return must be the same as your filing status on your federal return. If you file a separate federal return, you must file a separate Oregon return. If you file a joint federal return, file a joint Oregon return—unless you qualify for the following exception.

EXCEPTION

If you file a **joint federal return** and one spouse is a **full-year** Oregon resident and the other is a part-year resident or nonresident, you may choose to file either a joint or separate Oregon return as explained in the following section.

Joint Oregon return

File Form 40 as if both of you were full-year residents. Include your total combined income. You may be eligible to claim a credit for income taxes paid to another state. See page 30 for an explanation.

Separate Oregon returns

You and your spouse should each report your own income. If you are the full-year resident, file Oregon Form 40 and report your share of federal adjusted gross income (AGI). Your part-year resident or nonresident spouse should file an Oregon Form 40NR, reporting only Oregon income. Use the following rules to file under this exception.

Federal tax. Each spouse may deduct a portion of his or her joint federal tax liability. Figure your percentage using the following formula:

$$\frac{\text{Your share of federal AGI after Oregon changes}}{\text{Joint federal AGI after Oregon changes}} = \text{Your percentage (not to exceed 100\%)}$$

To find your joint federal AGI after Oregon changes, start with the total federal AGI of both you **and** your spouse. Adjust that total federal AGI by any Oregon changes to federal income. (See instructions on Oregon changes to income.) Adjust all income, even if it isn't from an Oregon source.

Multiply your joint federal tax liability by your percentage to determine your subtraction. Each spouse is limited to a maximum subtraction of $3,500.

Standard deduction. If you use the Oregon standard deduction, multiply your portion of your joint federal AGI after Oregon changes by 13 percent. You're allowed a minimum deduction of $525. You can't claim more than $750. If your spouse itemizes, you also must itemize. You can't claim the standard deduction if your spouse itemizes.

Itemized deductions. If you claim itemized deductions, determine your share by multiplying your total joint deductions by the percentage you figured. That's the percentage you figure to determine your share of your joint federal tax liability.

You may separate each spouse's itemized deductions, item by item, if you can clearly substantiate your allocation. Normally, only spouses who maintain separate households and finances for the entire year will be able to do this.

Exemptions. You can't prorate exemptions. You may claim exemptions for yourself and any dependent for whom you provided more than one-half the support. You can't claim an exemption for the same dependent claimed on your spouse's return.

How to file your separate return. If you and your spouse are filing separate Oregon returns, write both of your Social Security numbers on the front of your Oregon return. In the lower left-hand corner of your return, write: "Married filing separately for Oregon only." Write this in colored ink or pencil (not red), so we can see it easily.

Attach a schedule to your return. Show the division of your joint federal income. Also show the computation of the individual shares of your net itemized deductions and federal tax liability.

If possible, mail your Oregon returns in the same envelope. But don't staple the returns together.

Attach a complete copy of your joint federal return and schedules to each return.

Note: You and your spouse must file a joint federal return to qualify for this exception. If you file separate federal returns, file separate Oregon returns. **Also, one spouse must be a full-year resident and the other a part-year resident or a nonresident.** If both spouses are part-year residents or nonresidents, or if one spouse is a part-year resident and the other a nonresident, use the filing status you used on your federal return.

Example: Jim Anderson worked and lived in Oregon all year. Mary Smith moved from Idaho to Oregon in July and married Jim. They filed a joint federal return but chose to file separate Oregon returns. Mary earned $6,000 in Oregon and $6,000 in Idaho. Their total federal income was $19,000. They had an Oregon change to federal income of $1,000. The change was due to the differences between federal and Oregon law for depreciation. The depreciation was from Jim's part-time business in Oregon. Jim and Mary claimed $3,600 itemized deductions, including $300 Oregon withholding tax on their joint federal return. Mary's Oregon withholding tax was $100. Jim's Oregon withholding tax was $200. Their federal income tax liability was $2,000.

Here's how the Andersons figure their federal AGI after Oregon changes to federal income:

Federal AGI	**$19,000**
Oregon changes to federal income	**1,000**
Federal AGI after Oregon changes	**$20,000**
Jim's share of federal AGI after Oregon changes:	
Jim's share of income from the federal return	**$ 7,000**
Jim's share of Oregon changes to federal income	**1,000**
Jim's share	**$ 8,000**
Mary's share of federal AGI after Oregon changes:	
Mary's share of income from the federal return	**$12,000**
Mary's share of Oregon changes to federal income	**0**
Mary's share	**$12,000**

Jim, a full-year Oregon resident, files Form 40 and reports income of $8,000. His share of the federal tax liability and deductions is:

$$\frac{\$\ 8,000}{\$20,000} = .40 = 40\%$$

His federal tax subtraction is 40 percent × $2,000 = $800. His total itemized deductions on his Oregon return are 40% × $3,600 = $1,440. He must reduce this amount by his percentage of Oregon tax claimed as an itemized deduction, $120 (40% × $300). His net Oregon itemized deductions are $1,320.

Mary, a part-year resident, reports $6,000 Oregon income. She claims the following federal tax liability and deductions on Form 40NR.

Her share: $\frac{\$12,000}{\$20,000} = 60\%$

Federal tax: 60% × 2,000 = $1,200

Total itemized deductions: 60% × $3,600 = $2,160

Reduction for Oregon tax: 60% × $300 = $180

Here's how she figures her Oregon taxable income on Form 40NR:

Income subject to Oregon tax:		$6,000
Her share of:		
Itemized deductions	$2,160	
less Oregon tax	-180	
Net itemized deductions	$1,980	
Federal income tax	$1,200	
Personal exemption	$1,000	
	$4,180	

Oregon percentage:

$$\frac{\text{Her Oregon AGI}}{\text{Her federal AGI after Oregon changes}} \quad \frac{\$6,000}{\$12,000} = 50\%$$

Allowable Oregon deductions and exemptions (50% × $4,180)	-$2,090
Oregon taxable income	$3,910

Oregon changes to federal income

1981 Oregon tax law tied to 1980 federal tax law

This is a new section on your 1981 Oregon return.

Most Oregon tax laws follow federal tax laws. But Oregon didn't adopt any new federal tax laws **passed and effective after Dec. 31, 1980.**

For example, Oregon didn't adopt the federal Economic Recovery Tax Act of 1981, a major piece of federal legislation. If you used new federal tax laws to figure your income, you may need to change your 1981 federal income to conform to 1980 federal tax laws for Oregon.

You must have a tax year that begins on or after Jan. 1, 1981, and before Jan. 1, 1983, to have Oregon changes to federal income.

Calendar-year taxpayers. Use 1980 federal income tax laws for your 1981 Oregon return.

Fiscal-year taxpayers. You aren't affected by Oregon changes to income until you have a tax year that **begins** on or after Jan. 1, 1981.

To figure your Oregon taxable income, you begin with federal adjusted gross income. You must change this income on your Oregon return to conform to 1980 federal tax laws. To change your federal income, figure the difference between federal income using 1981 federal tax law and federal income using 1980 federal tax law. Report each difference on your Oregon return under the section "Oregon changes to income." Add or subtract each change to or from your 1981 federal gross income. This result is your "Oregon adjusted gross income."

New federal laws

You may use **Form 40S** if your only Oregon change to income is for All Savers interest. You must use 1981 Oregon **Form 40** or **Form 40NR** if you used 1981 federal laws affecting the other items listed below.

- Interest from All Savers certificates. These aren't tax-exempt for Oregon.
- Property you began depreciating after 1980. You can't use the new federal Accelerated Cost Recovery System (ACRS).
- Sale of a home by a person 55-years or older. Oregon still allows you to exclude only $100,000 of the gain.
- Sale of a personal residence—Oregon still allows only 18 months to reinvest in a new home.
- Gifts to employees—Oregon didn't adopt new federal laws on gifts to employees.
- KEOGH—Did you get an early distribution of benefits from a terminated plan? If so, Oregon still won't allow a deduction for any contributions to a KEOGH made within five years after your plan terminates.
- Interest rate of installment land sales to relatives. Oregon requires 10 percent interest on land sales to relatives when the stated rate isn't at least 9 percent.
- Incentive stock options.
- Rehabilitation of low-income housing.
- Gain or loss on property you began depreciating in 1981. You may have a difference because Oregon depreciation differs from federal depreciation.
- Bond proceeds from a qualified purchase plan can't be transferred to an IRA (Individual Retirement Account) tax-free.
- Tax straddles. These apply to few people, so we haven't explained them in this publication.

Interest from All Savers Certificates

Interest from All Savers Certificates isn't tax-exempt for Oregon. But the interest qualifies for the $200 ($400 if married filing jointly) exclusion.

On Form 40S

On Form 40S, **line 2,** add your All Savers interest to your other interest. Subtract the $200 ($400 if married filing jointly) exclusion from all qualifying interest and dividends.

Example: Barbara Himber is single. She has $100 interest from her All Savers Certificates, $200 in other interest and $100 in other dividends.

Here's how she figures her taxable interest.

All Savers interest	$100
Other interest	200
Other dividends	100
Total interest and dividends	$400
Less exclusion	200
Interest on line 2, Form 40S	$200

Form 40

Take the All Savers interest you excluded on your federal return. Add it to any other interest and dividends (including any All Savers interest **taxed** on your federal return). Don't include interest from the U.S. Government. Subtract the first $200 ($400 if married filing jointly) of qualifying interest and dividends. The result is the taxable interest and dividends for Oregon. Your All Savers interest on Form 40, line 2, is the lesser of: 1) the taxable interest and dividends for Oregon, or 2) the All Savers interest you excluded on your federal return.

Worksheet for figuring taxable All Savers interest

1. Interest received from All Savers Certificates excluded on your federal return .... 1. ____
2. Total interest and dividends from your federal return, line 8c .... 2. ____
3. Add lines 1 and 2 .... 3. ____
4. Interest from U.S. Government included in line 2 of worksheet (example—E and H bonds) .... 4. ____
5. Line 3 minus line 4 .... 5. ____
6. Fill in your exclusion: $200 ($400 if married filing jointly) .... 6. ____
7. Line 5 minus line 6 (not less than zero) .... 7. ____
8. Oregon change to income for All Savers interest, the lesser of line 1 or line 7 .... 8. ____

On Form 40, line 2, fill in the amount from line 8 of the worksheet.

Form 40NR

Part-year residents

In the federal portion column. Figure your total All Savers interest received in 1981. Subtract any unused interest and dividend exclusion up to $200 ($400 if married filing jointly). Fill in the net amount on line 22.

In the Oregon portion column. Figure the amount received while an Oregon resident. Subtract any unused interest and dividend exclusion figured for Oregon up to $200 ($400 if married filing jointly). Fill in the net amount on line 22.

Nonresidents

In the federal portion column. Figure your total All Savers interest received in 1981. Subtract any unused interest and dividend exclusion up to $200 ($400 if married filing jointly). Fill in the net amount on line 22.

In the Oregon portion column. Fill in -0- in the column labeled "Oregon portion."

Changes in depreciation for Oregon

Did you have property you began depreciating after Dec. 31, 1980? If so, you must refigure your depreciation for Oregon. To refigure, use 1980 federal laws for depreciation. That's the way you figured depreciation last year.

You will need the Oregon Depreciation Schedule, Form 150-101-025. You may also need the Instruction Sheet for the Oregon Depreciation Schedule, 150-101-029. Write to: Forms, Oregon Department of Revenue, Revenue Building, Salem, OR 97310.

Figure both your depreciation for Oregon (using 1980 federal law) and your depreciation from your federal return (using 1981 federal law). To figure your depreciation for Oregon, you may use any method allowed under 1980 federal tax law. The instructions for the Oregon Depreciation Schedule include worksheets to figure your depreciation for Oregon using two common methods: straight-line and declining balance.

On the Oregon Depreciation Schedule. Take the Oregon depreciation for property placed in service after 1980. Subtract it from federal depreciation for the same property. Fill in the amount on line 6 of the schedule. This is your change in depreciation for Oregon.

Full-year residents. On Form 40, line 3, fill in the amount from your Oregon Depreciation Schedule, line 6.

Part-year residents and nonresidents. On Form 40NR, line 23, (federal portion) fill in the amount from the Oregon Depreciation Schedule, line 6. On Form 40NR, line 23, (Oregon portion) fill in only the amount from the Oregon Depreciation Schedule, line 6 from:

- property you owned while an Oregon resident

AND

- property used to produce Oregon income.

Note: New federal law doesn't allow additional first-year depreciation after Jan. 1, 1981.

Calendar-year taxpayers. You may take additional first-year depreciation for **Oregon.**

Fiscal-year taxpayers. On your 1980 Oregon return, you can't take additional first-year depreciation on property you placed in service after 1980.

Gain or loss on property you began depreciating after 1980. Did you sell property you began depreciating after Dec. 31, 1980? Your gain or loss for Oregon may differ from your gain or loss for federal purposes. To figure your gain or loss for Oregon, use 1980 federal tax laws and the depreciation you claimed on your Oregon return. Subtract the total amount of your gains or losses on property you began depreciating after 1980 from the gains or losses for federal purposes. The difference is an Oregon change to federal income. Fill in the amount on Form 40, line 4; or Form 40NR, line 24. Label the change, "gain (or loss) on ACRS property."

Sale of a home by people 55-years or older

People 55-years old or older may exclude part or all of the gain on the sale of their principal residence (one-time exclusion).

For federal purposes. New federal law increased the maximum amount of the exclusion from $100,000 to $125,000 if you sold your home after July 20, 1981.

For Oregon. Oregon still allows a maximum of $100,000.

- **If you don't purchase a new residence ...**

  The gain in excess of the $100,000 Oregon exclusion is a long-term capital gain. Figure the gain in excess of $100,000 but less than $125,000. Then, figure 40 percent of gain. Fill in the amount as an Oregon change to income, Form 40, line 4; or Form 40NR, line 24. Label the change "gain not excluded for Oregon." You already reported the taxable amount more than $125,000 as a capital gain on your federal return.

Example 1: Marv and Etta Bell are 60-years old. They sell their home for a gain of $135,000. On their federal return they exclude $125,000.

Here's how the Bells figure their Oregon change to income:

Gain realized from sale of their home	$135,000
Less: one-time Oregon exclusion	- 100,000
Oregon gain before capital gain deduction	$ 35,000
Gain reported on federal return before capital-gain deduction	10,000
Additional capital gain for Oregon	$ 25,000
Taxable gain for Oregon (40% × $25,000 = $10,000)	$10,000

- **If you purchase a new residence within the 18-month replacement period ...**

  You may defer the amount of gain you excluded on your federal return in excess of $100,000. Refigure the amount of gain deferred on your federal Form 2119. Use the Oregon $100,000 limit rather than the $125,000 limit allowed on your federal return.

Deferred gain on the sale of a principal residence

If you sell your principal residence and replace it with another residence within a certain period of time, you can defer gain.

For federal purposes. You have two years before the sale and two years after the sale of your old residence to buy a new residence. This applies to sales after July 20, 1981. It also applies to earlier sales if the 18-month replacement period expires after July 19, 1981.

For Oregon. The replacement period is still 18 months. To figure your taxable gain, if any, use 1980 federal law. Depending on the length of time you owned your old residence, the gain will be a long-term or short-term capital gain. You must report the gain for the year you sold your home.

For sales in 1981-82. If you replace your residence after 18 months but within the 24-month replacement period allowed by the federal government, include the entire taxable amount as an Oregon change to federal income, Form 40, line 4; Form 40NR, line 24. Label the change, "gain on sale of residence."

Exception: If you sold your home in 1980, you won't have an Oregon change to income. That's because Oregon followed current federal law for that year. Oregon and federal differences only apply to gain on homes sold in 1981 and 1982.

Note: If you're 55-years or older, your gain may qualify for the one-time exclusion. See the previous section.

Gifts from employers to employees

For federal purposes. Under new 1981 federal law, employers may give "qualified plan awards." These awards may exceed the limits of gifts to employees established under federal law prior to 1981.

For Oregon. Generally, you can deduct the cost of gifts up to $25 ($100 for length of service). Figure the amount of gifts you could deduct under 1980 federal law. Then, subtract the amount for Oregon purposes from the amount of gifts allowed for federal purposes. The difference is an Oregon change to federal income, Form 40, line 4; Form 40NR, line 24. Label the change, "employer's gifts."

Contributions to a KEOGH

On your federal return. You may deduct KEOGH contributions within five years after you got a distribution from a terminated plan.

On your Oregon return. You can't deduct contributions to KEOGH within five years after you got a distribution from a terminated plan. Did you deduct such KEOGH contributions on your federal return? If so, add the contributions back to your Oregon return, Form 40, line 4; Form 40NR, line 24. Label the change, "KEOGH deduction."

Land installment sales between related parties

For federal purposes. New federal law requires an imputed rate of no more than 7 percent interest on installment sales between members of the same family. This law is effective July 1, 1981.

For Oregon. Oregon law still requires an imputed rate of 10 percent interest on installment sales between related parties. You use 10 percent interest when the stated rate isn't at least 9 percent. Figure the difference between the interest for Oregon and the interest for federal purposes. The difference is an Oregon change to federal income, Form 40, line 4; Form 40NR, line 24. Label the change, "installment sales."

Incentive stock options

For federal purposes. A new federal law allows a new type of option—the **incentive stock option.** Generally, stock under the incentive option plan is taxed when the stock is sold or exchanged.

For Oregon. Oregon didn't adopt this law. Treat options granted under this plan as nonstatutory stock options. Generally, income is realized when the nonstatutory stock option is exercised. The difference between the amount you paid for the option and the fair-market value of the stock is ordinary income.

Qualified or restricted stock options exercised before May 21, 1981, keep their statutory treatment for Oregon purposes. If you exercise these options after May 20, 1981, treat them as nonstatutory stock options. If the option is exercised, report the difference between the income for Oregon purposes and for federal purposes as an Oregon change to income, Form 40, line 4; Form 40NR, line 24. Label the change, "stock option."

Rehabilitation of low-income housing

Did you rehabilitate low-income rental housing over a period of 60 months? If so, you may elect to amortize expenditures you incurred.

For federal purposes. New federal law raised the amortization limit to $40,000 on qualified low-income housing.

For Oregon. The amortization limit still is $20,000. Figure the difference between expenditures for federal purposes and expenditures for Oregon purposes. On your Oregon return, add back the difference as an Oregon change to income, Form 40, line 4; Form 40NR, line 24. Label the change, "low-income housing."

Proceeds from a qualified bond purchase plan

Employers can establish qualified bond purchase plans to buy special U.S. government bonds.

On your federal return. Under new 1981 federal law, you may redeem these bonds and transfer the proceeds in excess of your basis to an IRA (Individual Retirement Account) set up for your benefit. Your basis is your contribution to the purchase of these bonds. For federal purposes, when you transfer the proceeds, treat the proceeds as a "rollover contribution." This means you may defer the tax on the proceeds in excess of your basis. You will be taxed by the federal government when there is a distribution from the IRA.

On your Oregon return. Did you transfer the proceeds from a qualified bond purchase plan to an IRA (Individual Retirement Account)? If so, include the proceeds in excess of your basis as an Oregon change to income. Label the change, "bond proceeds." Then, subtract the interest portion of the proceeds as an Oregon subtraction for U.S. government interest.

Additions

Oregon additions modify the amount reported on your federal return so your Oregon return complies with Oregon tax law. Add to federal taxable income: 1) income that Oregon taxes but the federal government doesn't and 2) deductions claimed on your federal return that Oregon doesn't allow.

This publication doesn't cover the addition for Oregon tax claimed as an itemized deduction. That addition is explained in the 1981 full-year resident Oregon income tax packet, page 27. Other additions are explained below.

Interest and dividends exempt from federal tax

You must show, as an addition on your Oregon return, interest or dividends on bonds or notes of another state, or political subdivision of another state, that you didn't include on your federal return. Part-year residents should show only the amount earned while an Oregon resident. Nonresidents won't have this addition.

Interest on loans to purchase the federally exempt bonds or notes isn't deductible on the federal return. Neither are expenses incurred to produce income from the bonds or notes. But you may claim the interest and expenses on your Oregon return if you itemize for Oregon. Reduce your Oregon addition by the amount of expenses not deductible on your federal return.

Example: Gloria Smith received $1,000 of interest from her New York City bonds. She borrowed $3,000 to purchase the bonds. During the year she paid $100 of interest on the loan. She claimed itemized deductions but couldn't deduct the interest expense on her federal Schedule A. That's because the interest from the bonds wasn't included on her federal return. She would report a $900 addition on her Oregon return.

New York City bond interest	$1,000
Interest expense connected with the bonds	-100
Oregon addition	$ 900

Also show as an addition, interest or dividends on obligations of any authority, commission, instrumentality or territorial possession of the United States. These are exempt from federal tax but not state tax. Such bonds aren't common.

Lump sum distributions

If you elect to use the special 10-year averaging method on your federal return (Form 4972), part or all of your lump sum distribution won't be included in the federal adjusted gross income on your Oregon return. The income not included in the federal AGI must be added to income on your Oregon return.

Election to report capital gain portion on Schedule D. If you make this election on your federal return, the capital gain income will be included in federal AGI. But the ordinary income won't be included. Add to Oregon income the amount of ordinary income shown on your federal Form 1099R. Fill in this amount on the line for other additions, Form 40, line 7; or Form 40NR, line 30. Label this line "lump sum."

Example 1: Joseph Fine got a $20,000 lump sum distribution from his employer. Of this, $12,000 was capital gain and $8,000 was ordinary income. He elected to use the 10-year averaging method only on the ordinary income portion. He reported the capital gain portion on Schedule D. His Oregon addition would be $8,000 (the ordinary income portion).

Election to treat entire distribution as ordinary income. If you elect to treat the capital gain portion as ordinary income, you also must fill in the capital gain as an addition on your Oregon return. Even though this portion is shown as ordinary income on your federal Form 4972, Oregon still allows you to claim the capital gain deduction. The entire addition on your Oregon return will be the ordinary income portion of your distribution plus 40 percent of the capital gain portion. Attach a copy of your federal Form 1099R. Or specify on your return which portion of your addition represents ordinary income and which portion represents capital gain.

Example 2: Janis Oakley received a $40,000 lump sum payment from her employer. Her Form 1099R showed $30,000 was capital gain income and $10,000 was ordinary income. She elected to treat the entire payment as ordinary income on her federal return. Her Oregon addition would be

Ordinary income portion		$10,000
Capital gains portion	$30,000	
× 40 percent	× .40	12,000
Oregon addition		$22,000

Note: Ms. Oakley is also subject to minimum tax on the capital gain deduction of $18,000 (.60 × $30,000).

Death benefit exclusion. If you are eligible for the federal death benefit exclusion, you may claim it on your Oregon return. You must apportion the exclusion between the capital gain and ordinary income portions of your lump sum payment. To determine the percentage of exclusion you may deduct from the capital gain portion, divide the capital gain portion of your distribution by the total distribution. To determine the percentage of exclusion you may deduct from the ordinary income, divide the ordinary income portion of your distribution by the total distribution. See the following example:

Example 3: Jacob Juniper received a $15,000 lump sum payment when his wife died. Of this, $12,000 was capital gain income, and $3,000 was ordinary income. He was eligible for a $5,000 death benefit exclusion. He elected to report the entire distribution as ordinary income on his federal return. He may subtract 20 percent ($3,000 ÷ $15,000) of the exclusion from the ordinary income portion. He may subtract 80 percent ($12,000 ÷ $15,000) of the exclusion from the capital gain portion. Here's how he figures the total addition on his Oregon return.

Ordinary income portion	$ 3,000	
Less death benefit exclusion 20% × $5,000	-1,000	
Net ordinary income portion		$2,000
Capital gain portion	$12,000	
Less death benefit exclusion 80% × $5,000	-4,000	
Net capital gain portion	$ 8,000	
× 40 percent	x .40	3,200
Total Oregon addition		$5,200

Minimum tax. Even though you may not be subject to federal minimum tax, your capital gain deduction still may be subject to Oregon minimum tax. See the section on Oregon minimum tax, page 29.

Federal income tax refunds

If you got a federal tax refund because of a federal audit or amended return, you may need to add part or all of that refund to your Oregon income. Read the explanation of the federal tax subtraction on page 18.

When to report the refund. As a general rule, report the refund in the year you get it. Report the refund as an "other addition." The rules for computing the addition are explained in the following section. But first, note the following exceptions.

Exception 1:
If there is an error on your federal return, the Oregon Department of Revenue may correct your federal tax liability during the processing of your Oregon return. This may decrease your federal tax subtraction. When the IRS later refunds the difference between your correct federal liability and the liability on your original return, don't report the refund as an addition. The tax subtraction on your original Oregon return was corrected, so you received **no tax benefit** from the additional tax you subtracted.

Example 1: The Jacksons showed a $4,000 federal tax liability on their 1980 federal return. They subtracted that same amount on their 1980 Oregon return. During the processing of the Oregon return, a math error was discovered on their federal return. The Oregon Department of Revenue figured their correct federal tax as $3,000 and reduced their subtraction to that amount. During 1981, the IRS refunded the $1,000 overpayment. The Jacksons shouldn't report the refund as an addition on their 1981 Oregon return.

Exception 2:
If you file an amended return before the filing due date for that tax year, your amended return is treated as your actual return for that year. In this case, the federal tax subtraction on your amended return should be based on your corrected federal tax liability. Any additional refund on the amended federal return shouldn't be reported in the year received.

Tax benefit. You need to consider only refunds of tax you received a benefit for in a **prior** year.

For example, you subtracted your entire federal tax liability of $3,000 on your 1980 Oregon return. In 1981, you amended your 1980 return and got a federal refund of $500. You got a $500 tax benefit because you subtracted $500 more on your 1980 return than your correct federal tax liability.

Use the same facts, except change your 1980 federal tax liability to $8,000. You didn't get any benefit from additional tax you subtracted. Even if you had reported your correct 1980 federal tax liability of $7,500, your subtraction was still limited to $7,000 on your 1980 Oregon return.

Figuring the addition. The amount of refund you report as an addition depends on: (1) the tax benefit you receive, (2) your current year's federal tax liability, (3) any additional tax you paid for a prior year because your federal return for that year was changed, and (4) the total amount of federal tax you subtract on your Oregon return.

To figure the addition, add your 1981 federal tax liability to any federal tax you paid in 1981 because your prior year's federal return was changed. From that sum, subtract the amount of tax benefit you got. If the amount is less than the total federal tax you subtract on your Oregon return, the difference must be shown as an addition.

Example 2: In 1981, Larry Jones amended his 1979 federal return and got a refund of $2,000. His 1979 federal tax liability was $8,000. His 1981 federal tax liability was $7,500. He subtracted $7,000 on his 1979 return. And he subtracted $7,000 on his 1981 return. The addition on his 1981 Oregon return will be $500.

Total 1981 federal tax subtracted on his Oregon return			$7,000
1981 federal tax liability		$7,500	
Tax benefit received:			
1979 federal tax subtraction	$7,000		
Correct 1979 federal tax ($8,000 − $2,000)	−6,000	−1,000	
Net federal tax liability			−6,500
Addition			$ 500

Example 3: Use the same facts you used in example 2, except change Mr. Jones' 1981 federal tax liability to $5,000. He paid $3,000 additional federal tax because of an audit of his 1978 federal return. He subtracted a total federal tax of $7,000 ($5,000 1981 tax liability plus $2,000 additional tax) on his 1981 Oregon return. (See "Federal Tax" on page 18 to see how to figure this amount.) Here's how he figures the addition for his federal refund:

1981 Oregon subtraction		$7,000
1981 federal tax liability	$5,000	
1978 federal tax paid in 1981	3,000	
Total	$8,000	
Tax benefit received (see example 2)	−1,000	
Net federal tax liability		−7,000
Addition		-0-

Mr. Jones won't report any addition on his 1981 Oregon return because his Oregon subtraction isn't more than his net federal tax liability.

Part-year resident and nonresident computation. Add to Oregon income only refunds of tax you received a tax benefit for. The tax benefit you got is the difference between the tax actually subtracted on the prior year's return and the tax that would have been subtracted had your federal return been correct. If the amounts on your federal return changed because your federal return was amended or audited, your Oregon percentage also may change. Use the corrected percentage to figure the tax benefits.

Example 4: Linda Willow was a nonresident during both 1980 and 1981. Her original 1980 federal tax was $4,000. Her Oregon percentage was 50 percent. In 1981, she amended her 1980 federal and Oregon returns. She got a $1,000 federal refund. Her revised 1980 Oregon percentage was 40 percent. She got a $400 tax benefit from the refund. She figured her tax benefit as follows:

Original federal tax liability (limit $7,000)	$4,000	
× revised Oregon percentage	× .40	$1,600
Corrected federal tax liability (limit $7,000)	$3,000	
× revised Oregon percentage	× .40	1,200
Tax benefit received		$ 400

The addition on the Oregon return is computed the same way it is for a full-year resident.

Example 5: Use the same facts you used in example 4. Ms. Willow's 1981 federal tax liability was $7,100. She would show a $300 addition on her 1981 Oregon return.

1981 federal tax subtracted (before proration)		$7,000
1981 federal tax liability	$7,100	
Tax benefit received	− 400	
Net federal tax liability		−6,700
Addition		$ 300

Foreign tax claimed as an itemized deduction

If you claimed tax paid to a foreign country as an itemized deduction on your federal return, you may have an addition on your Oregon return.

You must add some or all of the foreign tax claimed on federal Schedule A to your Oregon income if the foreign tax on Schedule A plus the federal tax subtracted on your Oregon return is greater than $7,000 ($3,500 if married filing separately).

Is your current year's federal tax **PLUS** any prior year's federal tax **$7,000 or more** ($3,500 if married filing separately)? If so, add back the entire amount of foreign tax on your Oregon return.

Is your current year's feredal tax **PLUS** your prior year's federal tax **less than $7,000** ($3,500 if married filing separately)? If so, follow these steps:

1) Add the federal tax you subtracted on your Oregon return to your foreign tax.
2) From the amount in step 1, subtract $7,000 ($3,500 if married filing separately).
3) Add to your Oregon return the amount greater than $7,000 (step 2).

Example: Joe Apple's 1981 federal AGI is $20,000. He has itemized deductions of $5,000, including $1,000 in foreign taxes. His 1981 federal taxes are $3,123. Joe amended his 1979 federal return. He paid an additional 1979 federal tax liability of $3,000. He must add some of his foreign tax to his Oregon return:

1981 federal taxes	$3,123
1979 federal taxes subtracted on the 1981 Oregon return	3,000
foreign tax on Schedule A	1,000
Total	$7,123
Less limit	-7,000
Amount in excess of limit	$ 123

He must add back $123 on his Oregon return.

Nonresident
Part-year resident

To figure the amount in excess of the limit use the same instructions as for full-year residents. Then take the amount in excess of the limit and multiply the amount by your Oregon percentage. This is the amount you will add on your Oregon return.

Disposition of inherited Oregon farm land or forest land

You may have an addition on your return if:

- You dispose of farm land you inherited from someone who died on or after Oct. 5, 1973,

OR

- You dispose of inherited forest land on or after Nov. 1, 1981.

You may have this addition because the valuation of the land for Oregon inheritance tax purposes may differ from the valuation for federal estate tax purposes. Generally, the federal valuation is the fair-market value of the property at the date of the owner's death. The Oregon valuation is usually less than the federal valuation. That's because for Oregon inheritance tax purposes the property may have been valued as farm-use or forest-use land.

Farm-use value
If the owner died between Oct. 5, 1973, and Sept. 12, 1975, use the farm-use value for the year preceding the owner's death. If the owner died on or after Sept. 13, 1975, use the farm-use value for the year of death. But you won't have this addition if the carryover basis was elected for decedents who died after Dec. 31, 1976, but before Nov. 7, 1978.

Forest-use value
Use the forest-use value for the year of death.

How to figure the addition
This addition is equal to the difference between: 1) the taxable gain or loss using the Oregon valuation as your basis and 2) the taxable gain or loss using the federal valuation as your basis. This addition will increase the gain or reduce the loss reported on your federal return.

Transfers of property. The addition is required when the inherited property is sold by the beneficiary. It is also required when:

1) You recognize gain or loss on property that acquired the inherited property's basis due to a nontaxable exchange or involuntary conversion.

2) You recognize gain or loss on property you received as a gift from a donor who inherited it.

Example: Kathy Smith inherited farm land from a relative who died on March 1, 1976. She sold the land on May 1, 1981, for $100,000. The fair-market value at the date of death was $70,000. The farm-use value of the land on the 1976-77 property tax statement was $25,000. Ms. Smith must show an $18,000 addition on her 1981 Oregon return. Here's how she figures her addition:

Gain using Oregon valuation:		
Selling price	$100,000	
Less: farm-use value	– 25,000	$75,000
Gain using federal valuation:		
Selling price	$100,000	
Less: fair-market value on 3-1-76	– 70,000	– 30,000
Difference in total gain		$45,000
Less: 60% capital gains deduction		– 27,000
Addition on her Oregon return		$18,000

Minimum tax. Even though you may not be subject to federal minimum tax, your capital gain deduction still may be subject to Oregon minimum tax. See the section on Oregon minimum tax, page 29.

Depletion

If you claim percentage depletion on your federal return, you must add to your Oregon income any depletion that exceeds your adjusted basis in the property.

Federal estate tax

Federal estate tax on income in respect of a decedent is allowed as a deduction on your federal return. If any of this tax is on income not taxed by Oregon, you must show an addition on your Oregon return.

The following formula should be used to determine the addition:

$$\frac{A \times B}{C} = \text{Amount of addition}$$

A = Income in respect of a decedent not taxable by Oregon.

B = Federal estate tax deducted on the federal return.

C = Income in respect of a decedent included in federal taxable income.

Subtractions

Oregon subtractions also modify the amounts you reported on your federal return. You may subtract from your federal taxable income specific items Oregon doesn't tax. You also may subtract deductions Oregon allows but the federal government doesn't.

Subtractions not covered in this publication include: Oregon public retirement income; military active duty pay; Oregon income tax refunds included in federal AGI; retirement contributions previously taxed by Oregon but not by the federal government; and income from sources within a federally-recognized American Indian reservation. For more information about these subtractions, see the Oregon income tax packet or contact the Oregon Department of Revenue.

Federal income tax

Current year's federal tax liability. Oregon allows a subtraction for your current year's federal income tax liability. The subtraction is limited to $7,000 ($3,500 if married filing separately).

The subtraction is based on the accrual method of accounting. This means you subtract the total amount of federal tax you owe for the tax year (not less than zero), regardless of when it's paid.

The subtraction is limited to income tax. This includes minimum tax, alternative minimum tax, tax on an IRA (Individual Retirement Account), and investment credit recapture. You can't include self-employment tax, Social Security (FICA) tax, or penalties. Federal income tax credits reduce your federal tax subtraction. But the credits for federal tax on special fuels and oils for overpaid windfall profits tax and the credit for a regulated investment company won't reduce your federal tax subtraction.

Your 1981 Oregon tax packet explains the specific federal line numbers you should use.

Additional federal income tax paid or determined in 1979 or after. If you paid additional federal tax because your federal return was amended or audited, you may subtract it in the year the tax was paid or determined, whichever is later. This is a change in the law, effective 1979. Your additional federal tax plus your current year's federal tax **cannot** exceed $7,000 ($3,500 if married filing separately).

This subtraction applies only to additional tax paid because your return was amended or audited. It doesn't include withholding tax, advance tax payments, or paying the tax due on your original federal return.

Report the additional tax as an "other subtraction." Label it "prior year's federal tax."

Example 1: Walter Schubert's 1981 federal tax liability was $6,100. He is filing single. During 1981, his 1979 return was audited by the IRS. After the audit, he owed $1,500 additional tax. He paid that amount in 1981. Mr. Schubert may subtract a total of $7,000 federal tax. Of this, $6,100 is his 1981 federal tax liability. He will report the remaining $900 as an "other subtraction."

Lesser of:		
(1) Additional tax paid during 1981		$1,500
or		
(2) Maximum 1981 federal tax subtraction	$7,000	
Less: 1980 federal tax liability	6,100	
Maximum subtraction of prior year's federal tax		$900

EXCEPTIONS:

1) If there is an error in your federal return, the Oregon Department of Revenue may correct your federal tax liability during the processing of your Oregon return. This may increase your federal tax subtraction. When the IRS later bills you for the difference between your correct federal liability and the liability shown on your original return, don't report the additional tax you pay as a subtraction. The federal tax subtraction shown on your original return was increased, so you may not subtract the tax again.

Example 2: The Martins showed a $4,000 federal tax liability on their 1980 federal return. They subtracted that same amount on their 1980 Oregon return. During the processing of the Oregon return, a math error was discovered on their federal return. The Oregon Department of Revenue computed their correct federal tax as $5,000 and increased their subtraction to that amount. During 1981 the IRS sent the Martins a notice for the $1,000 underpayment. Even though the Martins pay the additional tax in 1981, they may not claim it as a subtraction on their 1981 Oregon return.

2) If you file an amended return before the filing due date for that tax year, your amended return is treated as your actual return for that year. In this case, the federal tax subtraction on your amended return should be based on your corrected federal tax liability. Don't subtract the additional tax on your next year's return.

Part-year residents and nonresidents. Follow the same rules as a full-year resident. But you may subtract only a percentage of your federal tax. Your allowable Oregon percentage is equal to your Oregon adjusted gross income divided by your federal adjusted gross income after Oregon changes to federal income. Your Oregon percentage is on Form 40NR, line 27.

Your current year's federal tax liability should be on the line labeled: "1981 federal tax." Apply the percentage after you add your deductions and exemptions.

Any additional prior year's federal tax should be on the line labeled "other subtractions." The subtraction is equal to your allowable Oregon percentage times the lesser of: (1) $7,000 ($3,500 if married filing separately) minus your current year's federal tax liability, or (2) the additional federal tax.

Example 3: Assume Mr. Schubert in example 1 has an allowable Oregon percentage of 40 percent. He could subtract a total of $2,800 federal tax ($2,440 of 1981 federal tax plus $360 of additional federal tax paid in 1981).

Current year's federal tax:			
Current year's federal tax liability (maximum $7,000)			$6,100
Multiplied by allowable percentage			x .40
Subtraction for current year's federal tax			$2,440
Additional tax paid in 1981:			
(1) Additional 1979 tax paid in 1981		$1,500	
(2) 1981 maximum federal tax subtraction	$7,000		
Less: 1980 federal tax liability	6,100		
Maximum subtraction for prior year's federal tax		900	
Lesser of (1) or (2)			$ 900
Multiplied by allowable percentage			x .40
Subtraction for additional federal tax			$ 360

Amended returns. If your federal tax liability for a prior year is changed, follow these rules when filing an amended Oregon return for that year:

(1) **Additional federal tax paid or determined after 1978.** If you are filing an amended Oregon return to report changes made to your federal return, do not increase the federal tax subtraction. Report the additional tax in the year the tax was paid or determined, whichever is later.

Exception: Any amended return filed before the due date for that tax year should report the corrected federal tax liability. This is true even if the additional tax hasn't been paid yet.

(2) **Refunds of federal tax:** Don't change the federal tax subtraction on your amended return. Report federal refunds as an addition in the year you receive the refund. See the section on "Federal Tax Refunds."

Exception: If you file an amended return before the due date for the tax year involved, report the corrected federal tax liability. Don't report the refund in the year you receive it.

Interest and dividends on U.S. bonds and notes

You may subtract on your Oregon return any interest or dividends from U.S. bonds and notes included in your federal income. If you're a part-year resident, you may claim the subtraction only on interest and dividends included in Oregon income. Nonresidents can't claim the subtraction.

Special treatment is required if you claim expenses connected with these obligations as an itemized deduction. These expenses include interest on indebtedness incurred to carry the bonds and notes. They also include expenses incurred in the production of income from the bonds and notes. Since the income from the bonds and notes is exempt from Oregon tax, Oregon doesn't allow a deduction for these expenses. You must reduce your subtraction by the amount of those expenses you deducted on your federal return.

Example: Charles Danken reported $500 of interest income from his Series E Bonds. He borrowed $6,000 to purchase those bonds. During the year he paid $200 interest on that loan. He claimed the interest expense as an itemized deduction. His Oregon subtraction would be $300.

Series E Bond interest	$500
Interest expense connected with bonds	-200
Oregon subtraction	$300

Qualifying and nonqualifying obligations are shown on the following list:

EXEMPT	BOND
Yes	Alaska, Territory of
Yes	Banks for Cooperatives
	Columbia, District of
No/Yes	*Export-Import Bank: *If Eximbank is acting as guarantor, the interest is nontaxable only if actually paid by Eximbank
No	Farmers Home Administration
Yes	Federal Farm Credit Bank
Yes	Federal Financing Bank
Yes	Federal Homeowners Loan Bank
Yes	Federal Intermediate Credit Bank
Yes	Federal Land Bank
Yes	Federal National Mortgage Association
No/Yes	*Government National Mortgage Association: *If the creditor has defaulted and GNMA is paying the interest, it is nontaxable
Yes	Guam, Territory of
Yes	Hawaii, Territory of
Yes	International Bank of Reconstruction
Yes	Production Credit Association
Yes	Puerto Rico, Commonwealth of
Yes	Puerto Rico, Territory of
Yes	Samoa, Territory of
Yes	Series E and H Bonds
Yes	Tennessee Valley Authority
Yes	Treasury Bills
Yes	Virgin Islands, Territory of
No	U.S. Merchant Marine Bonds

U.S. Public Retirement Income

If your retirement income comes from the United States government, you may be able to subtract some of that income. Read the following requirements to see if you qualify for a subtraction on your Oregon return.

A. U.S. military retirement income

1. Under age 65 - no subtraction
2. Age 65 or over - subtraction is subject to:
   a. Federal taxable income limit
   b. Household income limit
   c. $3,400 limit
   d. Earned income limit

B. Nonmilitary U.S. public retirement income

1. Under age 62 - subtraction is subject to:
   a. Federal taxable income limit
   b. Household income limit
   c. $3,400 limit
   d. Earned income limit
2. Age 62 or over - subtraction is subject to:
   a. Federal taxable income limit
   b. Household income limit
   c. $3,400 limit

Limits

Federal taxable income limit. The subtraction can't exceed the amount of retirement income included in federal taxable income.

Household income limit. The subtraction is zero for the retiree with household income of $25,000 or more. Household income is the taxable and nontaxable income of a husband and wife. See page 43 for more details.

$3,400 limit. The subtraction is limited to this amount.

Earned income limit. The subtraction is limited to $3,400. This must be reduced dollar for dollar by earned income of the retiree. Earned income includes, but isn't limited to, the following:

(1) Salaries, wages or professional fees.

(2) Other retirement pensions and annuities (not Social Security income or nonsupplemental railroad retirement benefits). Disability pensions generally aren't considered earned income. But if you are age 65 or over, your disability pension is earned income. It also is earned income if you make the irrevocable election to treat it as a normal retirement pension on your federal return.

(3) Business income. If you are engaged in a trade or business with substantial income from both personal services and capital, only 50 percent of the income from your trade or business is considered from personal services.

If your income from a trade or business was affected by Oregon changes to federal income, refigure this income for Oregon before you figure your earned income. For example, did you have property you began depreciating in 1981? If so, you should have used the Oregon Depreciation Schedule, Form 150-101-025, to refigure your depreciation. Figure your business income using Oregon depreciation.

All of the above are considered earned income, whether or not they are taxed by Oregon. Part-year residents must reduce the subtraction by all earned income even though the income was earned outside Oregon.

Example 1: Luis Martinez is 60. He reported a $4,000 U.S. Civil Service pension on his federal return. His only other income was $200 in interest and a $1,500 military pension. Since he is under 65, his military pension doesn't qualify for the subtraction. But it is earned income. His subtraction for the Civil Service pension would be $1,900 figured as follows:

U.S. retirement income (limited to $3,400)	$3,400
Less earned income (interest is not earned income)	-1,500
Oregon subtraction	$1,900

Special Cases

Spouses. If one pension belongs half to each spouse because it was earned in a state with community property laws, don't subtract more than $3,400. The spouse who earned the pension should figure the subtraction based on the qualifications and limitations that apply to his or her own situation. The other spouse can't claim a subtraction for that pension.

If you and your spouse earned separate pensions, each of you should figure the subtraction on your own pension. When you figure your subtraction, take into account only your own earned income. You can subtract up to $3,400 each.

Example 2: Richard Robinson is 61. He received a $3,000 military pension. He earned $1,200 in wages. His wife Judy is also 61. She received a $2,000 Civil Service pension. In addition to this, she earned $500 from child care. The Robinson's allowable 1981 subtraction is $1,500 as shown below:

Mr. Robinson (military, under 65)		$ -0-
Mrs. Robinson		
Civil Service income (limited to $3,400)	$2,000	
less earned income	– 500	1,500
Total Oregon subtraction		$1,500

Beneficiaries. This subtraction is only for the person who earned the pension—not for benefits to a surviving spouse. If you received a pension earned by your spouse who died, that pension doesn't qualify for this subtraction.

Disability income. If your U.S. public retirement income is from a disability pension, you generally won't qualify for the subtraction. If you are 65 or older, you will qualify. You also qualify if you made the irrevocable election to treat your disability pension as a normal retirement pension on your federal return. This means you must begin to recover your contributions to the retirement plan. Figure your subtraction following the rules for your age and for your type of pension.

Part-year and nonresidents. Nonresidents won't have this subtraction. Part-year residents should follow the rules for a resident. But for part-year residents, the subtraction is further limited to the amount of pension included in Oregon income.

Adoption expenses

Oregon has a subtraction for expenses paid for adopting one or more children. To claim the subtraction you must itemize your deductions on your Oregon return. You can't subtract medical expenses already claimed as itemized deductions. Attach copies of receipts and canceled checks to verify the adoption expenses you claim.

Qualifying expenses. Expenses that qualify are attorney fees; court costs; adoption filing fees; social agency fees; adoption agency or doctor's adoption fees; doctor's fees; and laboratory, hospital, prenatal, pediatric or medical test expenses for the natural mother and child. Transportation expenses don't qualify for the subtraction.

Computation. Oregon didn't adopt any new federal laws passed after Dec. 31, 1980. So, Oregon doesn't allow the new federal itemized deduction for adoption of a child with "special needs." Did you claim adoption expenses for adopting a child with special needs? If so, fill out a separate Schedule A for Oregon. Don't show any federal adoption expenses on the Schedule A. Write, "For Oregon" across the top of the schedule.

Then, use the following worksheet to figure your Oregon adoption expense subtraction:

1. Amount from Schedule A, line 7 $_____
2. Adoption expenses paid in 1981 (other than medical expenses claimed on Schedule A) +_____
3. Line 1 plus line 2 _____
4. Less 3 percent of your Oregon adjusted gross income –_____
5. Line 3 minus line 4 _____
6. Less medical expenses from your Oregon Schedule A, line 9 –_____
7. Your Oregon adoption subtraction (line 5 minus line 6) _____

Full year residents. Fill in this amount on Oregon Form 40, line 16. Attach a sheet showing your computations.

Part-year residents. You may claim the subtraction for adoption expenses you incurred while you were an Oregon resident.

Nonresidents. You can't claim this subtraction.

Foreign tax subtraction

Beginning in 1981, you can subtract taxes paid to a foreign country if on your **federal** return:

- You claimed a credit for the taxes you paid to a foreign country.

OR

- You didn't claim a credit for tax you paid to a foreign country **AND** you didn't itemize on your federal return.

Your foreign tax **PLUS** your current federal tax (any additional federal tax paid for a prior year) can't be more than $7,000 ($3,500 if married filing separately).

To figure your subtraction:
1) Subtract your federal tax claimed on your Oregon return from your limit ($7,000 or $3,500).
2) Take the lesser of:
- the difference, OR
- your foreign tax.

Example 1: Lloyd Wash is single. He had a federal tax liability for 1981 of $3,200. He also paid in 1981 additional federal tax for 1979 of $2,100. On his federal return he took a credit for $1,000 in foreign tax for 1981. Here's how he figured his foreign tax subtraction:

Limit		$7,000
Less:		
Federal tax for 1981	$3,200	
Federal tax paid for 1979	2,100	
Total federal tax claimed on 1981 Oregon return		5,300
Amount available for foreign tax subtraction		$1,700

His foreign tax subtraction is the lesser of:

His foreign tax	$1,000	
OR		
Amount available for the foreign tax subtraction	$1,700	
His foreign tax subtraction for Oregon		$1,000

Example 2: Ginny Crosley has a 1981 federal tax liability after credits of $5,000. She also amended her 1979 return in 1981 and paid an additional $900 in federal tax. On her federal return she took a credit for $4,000 in foreign tax for 1981. Here's how she figures her foreign tax subtraction:

Limit		$7,000
Less:		
1981 federal tax liability	$5,000	
1979 additional federal tax paid in 1981	900	
Total federal tax claimed on 1981 Oregon return		5,900
Amount available for foreign tax subtraction		$1,100

Her foreign tax subtraction is the lesser of:

Her foreign tax	$4,000	
OR		
Amount available for the foreign tax subtraction	$1,100	
Her foreign tax subtraction for Oregon		$1,100

Part-year and nonresidents

You may claim a percentage of the subtraction allowed to full-year residents. Use your Oregon percentage on Form 40NR, line 27.

Example 3: Mary and Paul Parkhurst have a $2,800 federal tax liability for their 1981 tax year. They didn't have any additional federal tax. But on their federal return they took a credit for $1,500 in foreign tax for 1981. Their Oregon percentage, Form 40NR, line 27, is 40 percent. Here's how they figure their foreign tax subtraction for Oregon:

Limit	$7,000
Less:	
1981 federal tax liability	2,800
Amount available for foreign tax subtraction	$4,200

Their foreign tax subtraction is the lesser of:	
Their foreign tax,	$1,500
OR	
Amount available for the foreign tax subtraction	$4,200

Full-year resident subtraction	1,500
Oregon percentage	x .40
The Parkhursts' foreign tax subtraction for Oregon	$ 600

Note: Did you claim your foreign tax as an itemized deduction on your federal return? You don't need to change your itemized deduction on your federal return. But you may need to show some or all of your foreign tax as an addition on your Oregon return. See page 16.

If you didn't itemize on your federal return but you did itemize on your Oregon return, then don't include the foreign tax on your "Oregon only" Schedule A. Instead, figure the Oregon foreign tax subtraction.

Construction worker's and logger's commuting expenses

Qualifying construction workers and loggers may claim certain commuting expenses. To claim these expenses you must have worked at a construction project or logging operation site more than 50 miles from your home. A construction project is construction, alteration, repair, improvement, moving or demolition of a structure. A logging operation is the commercial harvesting of forest products. People in other occupations aren't eligible for the subtraction.

Qualifying workers. Loggers must be fallers or buckers who maintain their own equipment and are paid on a per unit cut basis. Construction workers must be members of a recognized trade, craft or union.

Qualifying expenses. You may claim the actual cost of gas, oil, repairs and maintenance for your vehicle for getting to and from the work site. If you use your vehicle partly for business and partly for personal purposes, you must determine what percentage is for business use. You may claim only the business percentage of your repairs and maintenance as commuting expenses. You can't claim depreciation. You can't use the standard mileage rate to figure expenses.

Duration of project. If you are a construction worker, claim only your expenses for the first year of continuous employment at the same construction site. If your employment at that job site is temporarily interrupted, don't count the interruption when you figure the one year limit. If you are a logger, there is no limit on how long you may work at the same job site and still claim expenses.

How to claim the subtraction. Claim your commuting expenses as an "other subtraction" on your Oregon return. But don't subtract expenses if you've already claimed the same mileage as an employee business expense deduction on federal Form 1040. Keep receipts and canceled checks to prove your expenses if your return is audited.

Part-year residents and nonresidents. You may claim only expenses related to income that Oregon taxes.

Doctors in medically disadvantaged areas

Oregon allows a subtraction for doctors who enter the practice of medicine in a medically disadvantaged area of Oregon. You must have received your license after Jan. 1, 1974, but before **Jan. 1, 1982.**

The subtraction is equal to 25 percent of your total medical school expenses but not more than $10,000 for any year. You may claim the subtraction for four years.

The area must be disadvantaged when you begin practice there. If the area later doesn't qualify as "medically disadvantaged," you may still deduct your expenses for four years. For those who enter the practice of medicine in 1981 the following areas are medically disadvantaged:

Applegate-Williams
Bly
Brownsville
Cave Junction
Chiloquin
Cloverdale
Columbia County
(except St. Helens)
Curry County
Detroit-Idanha
Eagle Point
Elgin
Estacada
Gilliam County
Halfway
Harrisburg
Jordan Valley
Lapine
McKenzie
Monroe
Morrow County
Nyssa
Powers
Rogue River
Shady Cove
Sweet Home
Union
Wheeler County
Willamina
Woodburn

This list will change in 1982.

Qualifying expenses are limited to your actual and ordinary expenses to attend medical school. These include: tuition, fees, books, supplies, living expenses, and other actual and necessary expenses. You can't deduct expenses directly assignable to children or a spouse. Rent and utility expenses are deductible in full without apportionment. Travel expenses aren't deductible.

Living expenses include the fair rental value of a home, limited to the actual house payment if the house is being purchased. You can't claim the part of any house payments representing interest, taxes and business expenses if these items were deducted on a prior year's return.

Area of practice. The location of the physician's office normally defines the area of practice. A physician doesn't qualify if he or she only occasionally visits a hospital or a patient in a medically disadvantaged area.

To claim the subtraction. You must write a letter requesting certification from the Oregon State Board of Medical Examiners. If it approves your request, the board will complete Part I of Schedule MDA and send it to you. This certifies the area was medically disadvantaged when you began practice there. You must complete Part II of the schedule. Submit the schedule to the Oregon Department of Revenue on or before **April 15 following the first tax year you claim the subtraction.** This is true even if you get an extension to file your income tax return.

Adapting buildings, residences and vehicles for the handicapped and elderly

Oregon allows a subtraction for renovation projects improving access for handicapped or elderly people. The subtraction is allowed on both the personal income tax return and the corporate return.

A handicapped person has a physical or mental disability limiting employment or other major activities. An elderly person is age 65 or older.

You may claim costs of remodeling a building, personal residence or vehicle you own or lease. Individual taxpayers may claim costs for a residence or personal vehicle in Oregon. Renovated buildings or vehicles for trade or business use don't need to be in Oregon as long as the business income is taxable by Oregon. After renovation, buildings must meet state and federal standards for the access of handicapped people.

The subtraction is equal to the entire cost of the renovation project or $25,000, whichever is less. Don't claim costs you claimed on your federal return. You must claim the subtraction for the year the project is completed. The subtraction is in addition to any depreciation or amortization.

Who may claim the subtraction. You must own or lease or be buying the building, personal residence or vehicle at the time of the renovation. Divide the cost of the project if there are two or more owners. Base the division on the individual owner's interest in the property. Some qualifying renovation projects are

- Installing ground level entrances
- Installing ramped entrances
- Installing structures for freedom of movement between public use areas
- Installing bathrooms or restrooms with toilet stalls for the use of physically handicapped people
- Installing hand controls in a vehicle
- Installing ramps or lifts to improve access to a vehicle

Federal jobs tax credit wages or WIN (Work Incentive) credit wages

If you qualify for the federal jobs tax credit or the WIN credit, you must reduce your wage expenses on your federal return by the amount of the credit you figured for the year. Oregon allows a deduction for the amount of wages you couldn't claim on your federal return. You must deduct the wages on the Oregon return for the year they apply, even if the federal credit is carried over to another year.

If you are a full-year resident or if the credit is related to a business operated entirely in Oregon, subtract the wages not allowed on your federal return.

Part-year residents and nonresidents. If you are a part-year resident or nonresident and your federal credit is related to a business not operated solely in Oregon, you must prorate your subtraction. Divide your Oregon wage expense by your total wage expense (without reduction for the federal credit). Multiply this percentage by the wages not allowed on your federal return. This will give you your Oregon subtraction.

Partnerships and Subchapter S corporations. If your federal credit is from a partnership or Subchapter S corporation, you may subtract a percentage of the wages or salaries not deductible on your federal partnership or Subchapter S return. This amount generally will be the same as the percentage of total partnership or Subchapter S income you report on your return. Part-year residents or nonresidents must use the percentage explained in the previous paragraph to further prorate the wages and salaries.

Artist's charitable contribution

Oregon allows a subtraction to artists who contribute their own works of art to charitable or governmental organizations.

A charitable organization must use the art for the same purpose or function as its tax exemption. For example, a charitable organization that is exempt because it is organized exclusively for educational purposes must use the art for an educational purpose such as art appreciation. It can't just sell the art to use the proceeds for an educational purpose.

A governmental organization doesn't have to meet this requirement.

The art object must be a painting, sculpture, photograph, graphic or craft art, industrial design, costume or fashion design, tape or sound recording or film.

The subtraction is equal to the difference between
1) the amount that would have been allowed as an itemized deduction if you could deduct the fair-market value of the art; and
2) the amount actually allowed as an itemized deduction under federal law.

You must itemize deductions on your Oregon return to claim this subtraction. Contributions to some organizations are limited to 50 percent of your Oregon adjusted gross income. Contributions to other organizations are limited to 20 percent of your Oregon adjusted gross income. Use these limits when you figure the deduction using fair-market value. Attach a copy of an appraisal report showing the fair-market value of the art at the time of the contribution.

Example: Ron Waldin's Oregon adjusted gross income is $10,000. He donated one of his paintings to the State of Oregon for display in a building. The painting has a basis of $300 and a fair-market value of $6,000. Here's how he computes his subtraction:

1) Amount allowed as a charitable contribution if computed using fair-market value, ($6,000) (limit: 50% of $10,000)	$5,000
2) Amount allowed as a charitable contribution under federal law (basis)	−300
Subtraction (amount from 1 minus amount from 2)	$4,700

Enter the subtraction on line 16, Form 40; or line 37, Form 40NR. Label it "artist's contribution."

Gasohol

Income from manufacturing substitute fuel used to make gasohol is exempt from Oregon tax. Substitute fuel includes fuels such as methanol or ethanol. Seventy-five percent of the substitute fuel you produce must be used to make gasohol.

The Oregon Department of Energy must certify the plant. Attach a copy of the certification to your income tax return.

Enter the amount on line 16, Form 40; or line 37, Form 40NR. Label the line "gasohol."

Other modifications

Net operating loss

Use the 1980 Internal Revenue Code rules to figure a net operating loss for Oregon. Apply these rules to the items of income, deduction and modification on the Oregon return in both the year of the loss and the years the loss is carried to.

There is an exception. Treat the federal income tax deduction as a business deduction when applying the federal rules.

To determine a net operating loss for Oregon, start with Oregon taxable income (loss). Apply the 1980 Internal Revenue Code rules to this amount.

For example, an addition on the Oregon return for municipal bond interest from another state increases federal nonbusiness income. A subtraction on the Oregon return for U.S. bond interest reduces federal nonbusiness income. An addition for Oregon income tax claimed as an itemized deduction and considered a nonbusiness deduction in the federal computation reduces federal nonbusiness deductions. Look at these modifications in the following example of a net operating loss computation.

Example 1: Jack and Ellen Johnson file a joint return for 1981. They have two children. In 1981 they paid $1,000 for a federal income tax deficiency for their 1977 tax year. The Johnsons' Oregon adjusted gross income for 1981 is a $25,059 loss. Their itemized deductions are $4,123 of which $156 was for their Oregon tax deduction. All their itemized deductions were nonbusiness deductions.

Their income was from the following:

Schedule C income (loss)	−$26,459
All Savers Certificate interest	1,000
Municipal bond interest from California	200
U.S. bond interest	100
Savings account interest	300
Dividend income	400

Computation of both the federal and Oregon net operating losses:

	Federal		Oregon	
Schedule C income (loss)		−$26,459		−$26,459
Federal interest:				
U.S. bonds	$100			
Savings (not All Savers)	300			
Dividends	400			
Total	$800			
IRC 116 exclusion*	−400	400		400
Federal AGI		−$26,059		−$26,059
Oregon changes to income:				
Interest from All Savers				1,000
Oregon AGI				−$25,059
Oregon additions:				
Municipal bond interest				200
				−$24,859
Oregon subtractions:				
U.S. bond interest			−$ 100	
1977 federal tax deficiency paid in 1981			−1,000	−1,100
				−25,959
Deductions and exemptions				
Itemized deductions		−4,123	−4,123	
Less: Oregon tax claimed as itemized deductions			−156	
Net itemized deductions			−3,967	
Exemptions (4 × $1,000)		−4,000	−4,000	−7,967
Taxable income		−$34,182		−$33,926

*You may exclude the first $200 ($400 if married filing separately) of qualifying interest and dividends.

Then they figure their net operating loss for the year:

	Federal			Oregon	
Negative taxable income		−$34,182			−$33,926
Add: Modifications per IRC 182(d)					
Exemptions (4 × $1,000)		4,000			4,000
(A) Nonbusiness deductions:					
Itemized deductions	$4,123			$4,123	
Less Oregon tax included in itemized deductions				156	
Balance	$4,123			$3,967	
(B) Nonbusiness income:					
Taxable interest and dividends per federal return	$ 400			$ 400	
Add: Interest or dividends "added" for Oregon					
All Savers			1,000		
Municipal bond			200	1,200	
Less: Interest or dividends "subtracted" for Oregon (U.S. bond—$100)				−100	
Balance	$400			$1,500	
Excess of (A) over (B)		3,723			2,467
Net Operating Loss		−$26,459			−$27,459

Carryback and carryforward

Use the net operating loss computed in example 1 for example 2. Example 2 illustrates the carryback to the third preceding year (1978) of the net operating loss. The net operating loss is fully absorbed in 1979. If the deduction isn't absorbed until after 1981, the Johnsons would need to add the deduction claimed on the federal return. Then they would subtract the proper Oregon net operating loss carryover to arrive at Oregon taxable income for those years.

Example 2: Net operating losses from example 1, as a carryback.

Facts for 1978	
1978 AGI	$25,123
1978-1202 deduction	650
Municipal bond interest	475
Federal tax liability	1,432
Oregon standard deduction; (Federal zero bracket amount)	
4 exemptions	

Facts for 1979	
1979 AGI	$16,412
Municipal bonds interest	125
U.S. bond interest	351
Oregon standard deduction; (Federal zero bracket amount)	
4 exemptions	
Federal tax liability	$ 1,514

	Federal		**Oregon**	
Not fully absorbed				
1981 net operating loss deductions		−$26,459		−$27,459
1978 adjusted gross income	$25,123		$25,123	
1978 capital gain deduction	650		650	
Revised adjusted gross income	$25,773		$25,773	
Additions: municipal bond interest			475	
Subtractions: Federal tax liability			−1,432	
Standard deduction (based on revised AGI) or federal zero bracket amount	−3,200		−1,500	
1978 modified taxable income		$22,573		$23,316
Carryover to 1979		−$ 3,886		−$ 4,143
Fully absorbed				
1979 adjusted gross income	$16,412		$16,412	
Less: carryover of 1978 net operating loss deductions	−3,886		−4,143	
1979 adjusted gross income as revised		$12,526		$12,269
Additions: municipal bond interest			125	
Subtractions: U.S. bond interest			−351	
Federal tax liability			−1,514	
Standard deduction (based on revised AGI) or federal zero bracket amount	−3,200		−1,500	
Exemptions (4 × $1,000)	−4,000		−4,000	
Total		−7,200		−7,240
1979 taxable income as revised		$ 5,326		$ 5,029

Nonresidents
Apply the same principles to the following situation: A nonresident taxpayer incurs a net operating loss from Oregon business activities but has an overall positive federal income. Carry the Oregon net operating loss deduction to the appropriate Oregon return. Subtract it from federal adjusted gross income attributable to Oregon if the net operating loss deduction is absorbed. If it isn't absorbed, figure the allowable carryover. Do this by subtracting the modified Oregon taxable income for the carryback or carryover year from the Oregon net operating loss deduction.

Gain on the sale of an Oregon residence

For sales on or after Jan. 1, 1979. Generally, Oregon will tax the gain from the sale of your residence only when it's taxed by the federal government. Any gain deferred or excluded on your federal return won't be taxed by Oregon. This is true even if you reinvest in a home outside Oregon.

The Oregon basis of your home is equal to your federal basis. So, if you are taxed by the federal government, Oregon will tax you on the same amount of gain.

Exceptions:

1. Sale of a home by a person 55 or older. Oregon still allows you to exclude only $100,000 of the gain. See page 12.

2. Eighteen-month replacement period to reinvest in a new home. New federal law allows you a 24-month replacement period. Oregon didn't adopt this law. See page 12.

For sales before Jan. 1, 1979. Oregon taxes the gain on the sale of your Oregon home if it's taxed by the federal government. Usually, Oregon won't tax any gain deferred or excluded on your federal return. But if you reinvested in a home outside of Oregon, Oregon will tax the gain even though you weren't taxed by the federal government.

Usually, include in your Oregon income the gain shown on your federal Form 2119. But if the gain from the sale of your home includes deferred gain from out-of-state residences, your Oregon gain may differ from your federal gain. Oregon will tax only gain from Oregon residences and gain from out-of-state residences you realized while an Oregon resident. Don't report on your Oregon return any part of deferred gain from an out-of-state residence that wasn't realized while you were an Oregon resident. Remember, this is for sales **before Jan. 1, 1979.**

If the gain you included in federal income exceeds the gain you report to Oregon, report the difference (less the capital gain deduction) as a subtraction. If the Oregon gain is greater than the gain included in federal income, report the difference (less the capital gain deduction) as an addition.

You can't claim moving expenses as an adjustment to income on your Oregon return if you moved out-of-state and your new job was out-of-state. If you couldn't claim the moving expenses for this reason, you also can't use them to reduce your Oregon gain.

Fiduciary adjustments

The same modifications, including Oregon changes to federal income, that apply to an individual return also apply to an Oregon estate or trust return. These are called fiduciary adjustments. If you are a beneficiary of an estate or trust, you must report your share of fiduciary adjustments. Report it under "other Oregon changes to federal income," "other additions" or "other subtractions." Label it "fiduciary adjustment." Give the name of the estate or trust.

Example: Frank Hunt reported $5,000 of trust income on federal Schedule E. Of this, $2,000 was from interest on U.S. obligations. Mr. Hunt should claim a $2,000 subtraction on his Oregon return.

Part-year residents and nonresidents should report this modification only if it is related to Oregon income.

Minimum tax

Oregon residents are subject to a minimum tax on their tax preference items. Nonresidents are subject to minimum tax on tax preference items from Oregon sources.

Who owes minimum tax? You are subject to minimum tax if **either** 1 OR 2 apply to you.

1) Your tax preference items total more than $10,000 ($5,000 if married filing separately);

   OR

2) Your tax preference items are more than $3,000 ($1,500 if married filing separately); AND your Oregon adjusted gross income, plus accelerated depreciation on real property and on leased personal property, is $20,000 or more ($10,000 if married filing separately).

Tax preference items are defined in the Internal Revenue Code, section 57 (in effect for 1979). Oregon follows this law with three exceptions:

1) Depletion in excess of basis isn't allowed as a deduction when computing Oregon taxable income. So, it isn't a tax preference item.

2) The capital gain deduction on the sale of a farm isn't an item of tax preference if you owned the farm and lived there for five years immediately preceding the sale.

   You also may exclude from minimum tax, parcels of the farm sold prior to the sale of the residence if the parcels meet the five-year test. These parcels must be part of the farming operation associated with the land where the personal residence is located. Proximity is an important factor to determine if there are two separate farming operations. The gain from farm buildings is exempt from minimum tax if you meet the five-year test. Farm equipment and machinery along with timberland classified by the assessor are subject to minimum tax.

3) The capital gain deduction on gain reported for only Oregon is a preference item. For example, the capital gain deduction on a lump sum distribution is subject to minimum tax. That's true whether or not the distribution was included in federal AGI.

A partner, beneficiary or shareholder should report his or her share of tax preference items from a partnership, estate, trust or Subchapter S corporation.

See Schedule M for a complete list of tax preference items. The capital gain deduction and excess itemized deductions are subject to Oregon minimum tax. That's true even though they aren't subject to federal minimum tax.

The following credits aren't explained in this publication: credit for the elderly, child care expenses, and the loss of use of limbs (disability). These are explained in the 1981 Oregon income tax packet. Other credits are explained below.

Taxes paid to another state

Oregon residents may claim a credit if they pay income taxes to both Oregon and another state. The taxes must be on the same income.

You must earn the income subject to mutual taxation while you are an Oregon resident. This credit is only for income tax. You can't claim the credit for city tax, school tax, sales tax, property tax or other taxes not based on income.

You can't claim this credit if the mutually taxed income is from the sale of your residential property after Dec. 31, 1978. See the section on mutually taxed gain on the sale of residential property, page 37.

When to claim the credit. You may claim this credit only after you've paid the tax to the other state. You may only apply the credit against Oregon tax for the same year that the income was taxed by the other state. For example, you may claim only income taxed by both Idaho and Oregon for 1981 as a credit on the 1981 Oregon return. If you pay tax to another state for a prior tax year, you must amend your Oregon return for that year to claim the credit.

Modified adjusted gross income. To determine your credit, first compute your Oregon modified adjusted gross income. This is your Oregon AGI modified by Oregon additions and subtractions. Only include additions for income that Oregon taxes but the federal government doesn't. Only include subtractions for income the federal government taxes that Oregon doesn't. But don't include the subtraction for Oregon income tax refunds included in federal AGI.

The credit for a full-year resident is the lesser of the tax actually paid to the other state, your Oregon tax liability, or the amount figured with the following formula:

Formula I

$$\frac{\text{AGI taxed by both states}}{\text{Modified Oregon AGI}} \times \text{Your Oregon tax after all other credits}$$

Example 1: Nancy McGuire has, in addition to other income, $10,000 of rental income taxed by both Oregon and Idaho. Her income tax paid to Idaho is $300. Her total Oregon tax before credits is $2,100. She claimed a $100 Oregon child care credit. This makes her net Oregon tax $2,000 (before her credit for taxes paid to another state). Here's how she figures her allowable credit:

Oregon adjusted gross income	$40,000
Modifications	
Less: U.S. bond interest	5,000
Oregon public retirement income	2,000
	$33,000
Add: California municipal bond interest	17,000
Oregon modified adjusted gross income	$50,000

Using the above formula
$10,000 ÷ $50,000 × $2,000 = $400

Her allowable credit is the lesser of: 1) the amount ($400) from the formula above, 2) her Oregon tax ($2,000), or 3) the actual tax paid to Idaho ($300). In this case it is the tax paid, $300.

If you are a part-year resident, you must make one more computation.

Formula II

$$\frac{\text{AGI taxed by both states}}{\text{Total income on the return of the other state}} \times \text{Tax due to other state after credits}$$

Your credit is the lesser amount figured with Formula I, Formula II, your Oregon tax, or the tax actually paid to the other state.

Example 2: Scott Anderson moved from California to Oregon on Sept. 1, 1981. His 1981 California income tax after credits was $200. His 1981 Oregon income tax liability was $400. The example below shows his income on his Oregon and California returns.

Oregon income		
Wages 9-1 to 12-31		$ 7,000
Interest 9-1 to 12-31		300
Sale of California property 10-3-81:		
Total gain	$10,000	
Less 60% capital gain deduction	−6,000	
Net gain reported		4,000
Total Oregon AGI		$11,300
California income		
Wages 1-1 to 8-31		$ 8,000
Interest 1-1 to 8-31		600
Sale of California property 10-3-81:		
Total gain	$10,000	
Less 50% capital gain deduction	−5,000	
Net gain reported		5,000
Total California AGI		$13,600

His mutually taxed AGI was $4,000 — the amount of gain taxed by both states. Here's how he figures his Oregon credit for taxes paid to another state.

Formula I: $\$4{,}000 \div \$11{,}300 \times \$400 = \$142$
Formula II: $\$4{,}000 \div \$13{,}600 \times \$200 = \$59$

His credit is the lesser of: 1) amount from Formula I, 2)amount from Formula II, 3) his Oregon tax, or 4) the tax actually paid California. In this case, his credit is $59.

Addition for taxes also claimed as an itemized deduction. You can't claim a credit for taxes you paid to another state and also claim those taxes as an itemized deduction. To the income on your Oregon return, add the tax the credit is based upon.

The amount you add back to income isn't limited to the allowable credit. But it is limited to your actual income tax liability to the other state. It is also limited in any one year to the deduction for tax paid and applicable to years when a credit was claimed. Generally, you will add the lesser of: (1) your tax liability to the other state, or (2) the amount of tax subtracted as an itemized deduction.

Example 3: Mr. Jones may claim a credit of $100 for income taxes paid to Idaho on his 1981 Oregon return. His Idaho income tax is $125. He claimed $75 of 1981 Idaho tax as an itemized deduction. He must add back $75 on his 1981 Oregon return. He must include the remaining $50 of his Idaho tax liability in income on his 1981 Oregon return if it is deducted on his Oregon return that year.

Example 4: The situation is the same as in Example 3, except that Mr. Jones deducted $150 of Idaho tax in 1981. He must include in income his 1981 Idaho tax liability of $125.

Verification required. If you claim a credit for taxes paid to another state, include a copy of that state's tax return and proof of payment with your Oregon tax return.

Political contributions

Oregon allows a credit for contributions to qualified political parties, candidates, committees and associations. To claim the Oregon credit, you **must** attach to your return copies of official receipts from the candidate or association, or copies of canceled checks verifying your contributions.

Qualified contributions

To qualify for the credit, your contribution must be money. Contributions of goods or services don't qualify.

Since Oregon and federal laws differ, you may qualify for a federal credit but not an Oregon credit. You also may qualify for an Oregon credit but not a federal credit. To qualify for the Oregon credit, you may contribute to the following:

Candidates. The person must be a candidate for nomination or election to a federal, state or local elective office in any primary, general or special election. In the year you make your contribution, the candidate must either be listed on a primary, general or special election ballot **in Oregon**, or must file a petition of nomination, a declaration of candidacy or certificate of nomination as required by Oregon law. Contributions to a campaign deficit qualify only if the contributions meet the above requirements.

Committees and associations. The committee must be organized to serve one or both of the following purposes. (1) It must influence or attempt to influence the nomination or election of one or more candidates for nomination or election to any federal, state, or local elective offices to be voted on in Oregon. (2) Or it must support or oppose ballot measures or questions to be voted on within Oregon if the organization certifies the name of its political treasurer to the state or local filing officer. Contributions to initiative drives, referendums or recall attempts qualify if sufficient signatures are obtained and if the question is placed on an Oregon ballot.

Political parties. Political parties may be national, state, or local committees of major political parties as defined in the Internal Revenue Code. Contributions to minor political parties defined in Oregon law also qualify.

Oregon doesn't allow a credit for contributions to a newsletter fund.

How the credit is computed.

The allowable Oregon credit is **one-half** of your total contribution. The credit is limited to $25 ($50 on a joint return). Your credit cannot exceed your Oregon tax liability.

Part-year residents and nonresidents may claim the full credit. You're not limited to a percentage. But you must meet the requirements for contributions to candidates, political parties and committees. For example, you must contribute to a candidate appearing on an Oregon ballot to claim the credit.

Weatherization

Oregon's tax credit for weatherization ended Jan. 1, 1981, for most Oregonians. The law ended **Sept. 1, 1981,** for those who heat with certain fuels.

For 1981
You only may claim the credit if:
- your home is heated with fuel oil, propane, butane or kerosene, OR
- you heat with wood and your back-up heat is a fuel listed above.

You must have weatherized **after Dec. 31, 1980,** but before **Sept. 1, 1981.**

Do you heat with natural gas or electricity? Ask your heating utility about its weatherization program. You may qalify for a cash payment from your utility for weatherization you did in 1981.

You still may claim a carryover on your Oregon income tax return of an unused weatherization credit from a prior year.

Is wood your only source of heat? If you heat your house only with wood and don't have any back-up heating system, you still may qualify for a cash payment for weatherization for 1981. But you must heat your water with electricity or natural gas. Contact the utility that provides heat for your water.

Qualifying materials for Oregon's weatherization credit. Qualifying items include materials and installation to improve space-heating and energy efficiency. Qualifying and nonqualifying items are listed on the 1981 weatherization certificate.

Effective installation date. Weatherization materials must be installed in a mobile home or floating home on or after Jan. 1, 1979. Weatherization materials must be installed in other dwellings on or after Oct. 4, 1977. **For 1981,** you must have weatherized **before Sept. 1, 1981.**

Qualifying residence. Weatherization materials must be installed in a residence you own. The building must be your principal residence. Or you must rent it to others who use it as their principal residence. The residence must be in Oregon. The home must be occupied at the time the work is done. Weatherization on housing under construction or on new additions to existing housing doesn't qualify for the credit. Remodeling that adds living space, such as enclosing a porch or converting a garage to a family room, also doesn't qualify. Weatherization of a mobile home, multifamily dwelling unit or a floating home used as a principal residence qualifies.

Only one residence qualifies. Claim the credit for only one dwelling in any one year. If you weatherize multi-unit residential housing, count each unit as a separate dwelling.

Example 1: Sandra Richardson weatherized her residence in April 1981. In June, she insulated the walls of a rental she owns. Both homes were heated with fuel oil. Ms. Richardson may claim the costs of weatherizing only one of these homes. She may choose whichever one she expects to give her the most tax benefit. But she can't get a credit for weatherizing the other home.

Financing. To figure your credit, you can't use any part of weatherization costs financed by a grant, refund or subsidized loan allowed under Oregon law. For example, to determine your credit you can't use any part of weatherization costs financed by a no-interest loan from Pacific Power and Light Company or Portland General Electric Company. The same is true for a low-interest (maximum 6½ percent) weatherization loan. But costs financed by the Oregon Department of Veterans' Affairs qualify.

Resident computation. The credit for any dwelling is equal to 25 percent of your cost for weatherization materials and installation. Don't include your own labor. Your credit can't exceed $125 for the year or your tax liability.

Example 2: Fred Grey spent $600 to weatherize his mobile home. Here's how he figures his weatherization credit.

The lesser of:		
(1) Weatherization costs	$600	
× 25 percent	× .25	$150
OR		
(2) Maximum credit		$125
Allowable Oregon credit		$125

Part-year residents and nonresidents may claim a percentage of the credit allowed a full-year resident. The percentage (not to exceed 100 percent) is equal to your "Oregon percentage." This is the percentage on Form 40NR, line 27.

Example 3: Greg White, a nonresident, spent $400 to weatherize a rental he owns in Portland. He heated with propane. His allowable percentage on Form 40NR, line 27 is 30 percent. Here's how he figures his allowable Oregon weatherization credit:

The lesser of:			
(1) Weatherization costs	$400		
× 25 percent	×.25	$100	
OR			
(2) Maximum credit		$125	
Full-year resident credit (lesser of (1) or (2))			$100
Allowable percentage			×.30
Allowable Oregon credit			$ 30

Limit per dwelling. The total credit claimed for any one dwelling can't exceed $125. Once you claim the maximum credit for a dwelling, the credit can't be claimed again for the same dwelling. So, your 1981 credit can't exceed $125 less the credits you claimed in previous years for that same dwelling. Count each unit in multi-unit housing as a separate dwelling.

Example 4: In 1980, Ann Henderson claimed a $90 credit for weatherizing her home. On May 1, 1981, she spent $300 more for installing storm windows in that same home. She heated with fuel oil. Her allowable 1981 credit is $35, figured as follows:

(1) Weatherization costs	$300	
x 25 percent	x.25	$75
OR		
(2) Maximum credit	$125	
Less: credits for previous years	90	35
Allowable 1981 credit (the lesser of (1) or (2))		$35

Carryover. If your credit for the year exceeds your tax liability, you may carry forward the excess. Claim the excess as a credit against your Oregon tax for each of the next five years until it is used up. If the excess isn't used within five years it's lost.

There are no carryover provisions for weatherization costs you lost because you weatherized more than one dwelling in a year, or because you exceeded the $125 limit per dwelling.

Example 5: The Richards insulated their attic at a cost of $800. Their Oregon tax liability before the credit is $75. Their initial credit is $125 ($800 × .25 = $200 limited to $125). Because their credit can't exceed their tax liability, the Richards may claim only $75 of the $125 credit. But they may apply the unused portion of the credit ($50) against their tax in the following year.

Separate returns. If a husband and wife weatherize their home and file separate returns, they may each claim a percentage of the credit that would have been allowed on a joint return. The percentage should represent the portion each spouse contributed to the total cost.

If a husband and wife each weatherizes his or her own separate principal residence, then they may compute the credit as if they were both single.

Example 6: Mary and George Baldwin installed storm windows in their home for $360. Mary paid $300 of this cost, and George paid $60. They are filing separate returns. Here's how they figure their individual credits:

Allowable credit on a joint return $360 × .25 (limited to $125)	$90
Mary's allowable credit $\frac{\text{Mary's cost \$300}}{\text{Total cost \$360}} \times \$90$	$75
George's allowable credit $\frac{\text{George's cost \$60}}{\text{Total cost \$360}} \times \$90$	$15

Example 7: John and Alice Merrill lived in separate residences during 1981. John insulated his ceiling for $800. Mary installed storm windows in her home for $400. They both heated with fuel oil. They are filing separate 1981 returns. Here's how they figure their individual 1981 Oregon weatherization credits:

John's allowable credit $800 × .25 (limited to $125)	$125
Alice's allowable credit $400 × .25 (limited to $125)	$100

Effect on deductions and basis. You can't claim as a **deduction** any weatherization costs allowed as a credit. If you claimed your weatherization costs as an expense on your federal return, any of those costs claimed as a credit must be an addition on your Oregon return.

You can't use weatherization costs allowed as a credit to increase the **basis** of the home you weatherized.

When to claim the credit. Claim the credit for the year the weatherization materials were installed even if the cost wasn't completely paid in that year. But to get the credit, you must have incurred an obligation for payment. An obligation for payment includes signing an invoice, sales slip or purchase order. It also includes charging the purchase to your customer credit account or credit card account.

You must attach to your Oregon return a copy of your weatherization certificate.

Investment in economically lagging areas

Oregon allows a tax credit for qualified investments in areas designated as economically lagging. The credit is for investments of $25,000 or more. Individuals, partnerships and corporations are eligible. Investments after Dec. 31, 1981, won't qualify for the credit.

Qualifying investments. To qualify, the project must have a useful life of at least three years and must permit or assist one of the following activities:

a. manufacturing or other industrial production
b. agricultural development or food processing
c. aquacultural development, fishing or seafood processing
d. further processing of a raw material or semifinished product being exported from the region
e. research and development
f. scientific testing: including medical, clinical and engineering testing
g. construction of a building used mainly for corporation headquarters
h. destination resort and recreational development
i. storage and warehousing for regional distribution
j. transportation or freight facilities

The project must provide new jobs and facilities. It can't just shift operations from one part of the state to another.

Lagging areas. The Oregon Department of Economic Development has designated certain areas as economically lagging. Qualifying investments in these areas are eligible for the credit. The list of designated areas may change. Contact the Oregon Department of Economic Development: (503) 373-1200.

How to compute the credit. The credit is 10 percent of the qualified investment. To find the qualified cost multiply the actual cost by a percentage. The percentage is based on the useful life of the property at the time it is placed in service. The percentages are:

If estimated useful life is		The percentage of actual cost to be used to compute the credit is
At least	but less than	
	3 years	0%
3 years	5 years	33⅓%
5 years	7 years	66⅔%
7 years or more		100%

Example 1: On March 1, 1981, George Lee invests in a qualifying project for $100,000. The project has a useful life of 5 years. The qualifying cost is $66,667 (66⅔ percent of $100,000). The allowable credit is $6,667 (10 percent of the $66,667 qualifying cost).

Carryover. The credit must be used against the tax due for the year the property is placed in service. The credit for the year can't exceed the tax due. Carry to the next year any unused credit. But you lose any portion of the credit you don't use by the end of the next three years.

Depreciation and basis. You still may claim depreciation or amortization on the investment property. Don't reduce your basis in the property by the amount of the credit.

How to claim the credit. You must have contacted the Oregon Department of Economic Development before you invested in the project. Claim the credit only on investments certified by the Oregon Department of Economic Development before **Jan. 1, 1982.** Attach to your Oregon return:

- A copy of the Oregon Department of Economic Development certificate approving the project, and
- A statement by an independent accountant (public accountant or CPA) certifying the total actual cost of the project and detailing major costs, and
- Oregon Department of Revenue Form 150-102-019.

Recapture

You must repay part of the credit if you sell, exchange or transport property for use outside an eligible area before the end of the useful life used to figure the credit. Repay the difference between the amount of credit received and the amount you would have received if the useful life were the period of use. To figure the period of use, use the last date of the taxable year preceding the disposition as the date of disposition. You must repay in the taxable year the property was disposed of. Fill in the repayment on the line for minimum tax. Label it "Recapture of credit for investment in lagging areas."

Example 2: Assume Mr. Lee in example 1 is a calendar year taxpayer. On July 1, 1983, he sold the property that qualified for the investment. His period of use is 1 year and 10 months (March 1, 1981, to Dec. 31, 1982). Based on the period of use, his credit would have been -0- (0 percent × $10,000 × 10 percent). He must repay $6,667 ($6,667 credit allowed less -0- credit based on period of use) on his 1983 return.

For further information on credit for investment in economically lagging areas, contact:

Oregon Department
of Economic Development
155 Cottage Street, N.E.
Salem, OR 97310
Phone: (503) 373-1200

Oregon jobs

You may claim this credit if you hire qualified new employees and if you increase the total number of full-time employees on your firm's payroll above a specific growth level each year. Don't confuse the Oregon jobs tax credit with the federal jobs tax credit. The qualifications and computation differ.

Qualified employee. An employee is qualified if he or she works at least 30 hours per week and was unemployed immediately prior to being hired. The employee must work in Oregon. The employee is qualified only in the year hired.

The term "unemployed immediately prior to being hired" means an employee was receiving: unemployment insurance benefits; public assistance from the Adult and Family Services Division; training in a publicly or privately funded training or rehabilitation program designated to upgrade job skills, wages and employment or promotional possibilities, including high school; training under a program operated by the Corrections Division of the Oregon Department of Human Resources; or workers' compensation.

Minimum growth level. For Oregon employers who were in business before 1977 (those who had Oregon employees for a tax year ending on or before Dec. 31, 1976), the minimum growth level is 3 percent. This means the number of Oregon full-time employees (both qualified and non-qualified) on the payroll on the last day of the current tax year must be at least 103 percent of the employees on the payroll on the last day of the previous tax year.

If you didn't have Oregon employees for a tax year ending on or before Dec. 31, 1976, don't claim the credit for the first tax year you have Oregon employees. But you are allowed a credit for the second and succeeding tax years if you meet all the statutory requirements. For the second and succeeding tax years, the minimum growth level is 2 percent.

How to figure the credit. The number of employees you can count toward the credit equals the lesser of: 1) the increase in number of qualified employees during the year, or 2) the number of full-time employees in excess of the minimum growth level.

For each employee who can be counted, the credit is $50 multiplied by the number of full months employed during the year. The credit can't be more than $500 for each employee. The credit is allowed for tax years beginning on or after July 1, 1977, and ending before Jan. 1, 1982. Fill out Oregon Form 150-102-015. Attach the form to your Oregon return.

Carryover. The credit can't exceed your tax liability. There's no carryover. Any portion of the credit exceeding your tax liability is lost.

Verification. Keep records to prove the employment status of your qualified employees in case you're audited. Keep written proof showing the type of assistance, benefit or training each employee received before being hired. Also keep a record of the employee's hours per week after being hired. If the employee received unemployment benefits, you must have a certificate showing this. The employee should get the certificate from the Employment Division of the Oregon Department of Human Resources.

Crop gleaning

Oregon allows a credit for crops donated to a gleaning cooperative. You must have grown the crop primarily for cash. At the time the crop is donated it still must be usable as food for human beings. You must have donated the crop because it would otherwise go to waste. You must also meet one of the following qualifications:

1) You supply your crop contract to the wholesale or retail buyer; or
2) If you are a party to a contingent supply contract, the wholesale or retail buyer reduces the crop quota you reasonably expected to supply; or
3) Harvesting your crop for sale no longer is economically feasible.

How the credit is computed. The credit for crop gleaning is equal to 10 percent of the wholesale market price. The wholesale market price is determined by either:

(1) The amount the last cash buyer of the particular crop paid you; or
(2) If there was no previous cash buyer, a market price determined by the gleaning cooperative. This price is based on the market price of the nearest regional wholesale buyer or the regional u-pick market price.

To claim the credit, attach Form 101-240 to your tax return verifying your donation. The cooperative has this form. Also, if there was a previous cash buyer, you must submit a copy of an invoice or other statement identifying the price received for crops of comparable grade or quality.

Otherwise, the cooperative will determine the price and include it on the form. The credit cannot exceed your tax liability.

Pollution control facilities

You may be eligible for an income tax credit if your business invested in structures or equipment to prevent pollution. The facility must prevent, control or reduce solid waste, hazardous waste, pollution of the air, water, used oil or noise pollution. You can't claim the credit if you claimed a property tax exemption on that pollution control facility.

The credit is based on the portion of the cost of the facility allocable to pollution control. The maximum credit is 50 percent of the facility's cost. Each year you may claim up to 10 percent of the total credit or the total credit divided by the useful life of the facility, whichever is larger.

To claim the credit, first contact the Oregon Department of Environmental Quality (DEQ), P.O. Box 1760, Portland, OR 97207, phone 229-5696. Apply to the DEQ for preliminary certification of the facility before beginning construction. If your plans are approved, and you build the facility, apply for final certification from the DEQ. After the certificate is filed, you must file a notice of election with the DEQ. If you elect to claim the income tax credit, file a copy of the DEQ certificate and the notice of election with the Oregon Department of Revenue. If you elect to claim a property tax exemption, file these forms with your county assessor.

Alternative energy devices

If you install an alternative energy device in a house you own or rent, you may be eligible for a tax credit.

Qualifying devices include mechanisms using solar, water, wind or geothermal power. These devices must provide at least 10 percent of the total energy requirements of the dwelling(s). Solar devices providing 50 percent or more of the energy requirements for domestic water-heating also qualify. Your device must be approved by the Oregon Department of Energy **before** you install the device. You may claim the credit for only one device in any one year.

Exception:
Starting in **1982** the Oregon Department of Energy will waive preliminary certification if the device was installed by a certified dealer. The dealer must have a dealer certificate from the Department of Energy.

Qualifying dwellings. Claim the credit for devices installed at your primary or secondary dwelling or at a residential rental unit. If you are a renter, you may still be eligible for any device you install at your residence if you pay the costs. The dwelling must be in Oregon. Each unit of a multiple-unit residential building qualifies as a separate dwelling. An owner or builder who doesn't live in or rent out the dwelling may transfer the eligibility certificate to the first purchaser. The purchaser may claim the credit if the purchaser is qualified. If you share the investment, you also share the tax credit.

How to claim the credit
You must get a preliminary certificate from the Oregon Department of Energy before you install the device.

You need an application from the Oregon Department of Energy, 102 Labor and Industries Building, Salem, OR 97310. Complete the application and return it to the Oregon Department of Energy.

The Department of Energy will review your application. If your alternative energy device qualifies, the Department of Energy will prepare and send you a preliminary certificate. For 1982 the Oregon Department of Energy will waive preliminary certification if the device was installed by a certified dealer.

The Department of Energy also will send an attachment for you to show your final costs. When you complete installation, fill out the attachment. Return the attachment to the Oregon Department of Energy. The Department of Energy will send you the "Claim for Tax Credit" form. Attach the "Claim for Tax Credit" form to your tax Oregon return.

Beginning in tax year 1982, you may claim the credit in the year you get the preliminary certificate if the device is operational by April 1 of the following year.

Computation. Your credit is the smaller of:
(1) 25 percent of the actual cost of acquisition, construction, and installation of the alternative energy device; or
(2) $1,000 per dwelling using the device.

If the alternative energy device serves more than one residential unit, each unit is considered a separate dwelling to compute the limit in (2) above.

Example 1: John Smeed installs an $8,000 solar heating system in his home. His Oregon tax liability is $2,500. His credit is the lesser of:

(1) 25 percent of $8,000 =	$2,000
(2) $1,000 per dwelling =	$1,000

He may claim a $1,000 credit.

Example 2: Use the facts you used in example 1, except the solar heating system is used to heat a duplex.

(1) 25 percent of $8,000 =	$2,000
(2) $1,000 per dwelling =	$2,000

Because the system is heating two dwellings, Mr. Smeed's credit is increased to $2,000.

Carryover. Your credit for the tax year can't exceed your tax liability. If it does, you may carry forward any unused credit for up to five years.

Example 3: Gary Hunt requests a certification for a rental home he owns. The home is occupied by a renter in 1981. A $3,200 solar energy device is approved. The maximum allowable credit is $800 ($3,200 × 25 percent). His tax liability before subtracting the credit is $550. Since the credit can't be more than his tax liability, he may use only $550 of the credit in 1981. He may use the remaining credit of $250 in 1982.

Collective investment. Two or more taxpayers may collectively invest in a qualified alternative energy device. If you invest with someone else, you must divide the credit. Your share of the credit is equal to your percentage of the actual cost of the device multiplied by the lesser of: 1) 25 percent of the total cost or 2) $1,000 per dwelling.

Example 4: Steve Short and Tom Booth invested $3,900 to install an alternative energy device in a rental they owned jointly. Mr. Short paid 40 percent of the total cost. Mr. Short's credit is 40 percent of the lesser of:

1) 25 percent of total cost (.25 × $3,900)	$ 975
2) $1,000 per dwelling	1,000

Mr. Short may claim $390 (40 percent of $975).

Part-year residents and nonresidents may claim a percentage of the credit allowed a full-year resident. The percentage (not to exceed 100 percent) is your "Oregon percentage." Your Oregon percentage is on Form 40NR, line 27.

Mutually taxed gain on the sale of residential property

If you sell your residential property in 1979 or after, your Oregon taxable gain will be the same as your federal taxable gain. Generally, any gain you deferred or excluded on your federal return also will be deferred or excluded on your Oregon return (see Oregon changes to federal income, page 12). You will qualify for a credit if the gain on the sale of your residential property is taxed by both Oregon and another state or country.

How the credit is computed.

The credit is the lesser of:

1) $\dfrac{\text{mutually taxed gain}}{\text{total income on the return of the other state or country}}$

×

the other state's or country's tax after credits

or

2) 8 percent of the gain taxed by the other state or foreign country.

Mutually taxed gain: Your mutually taxed gain is the total gain on the sale of your property reduced by any deductions or exclusions allowed by either the other state or country or by Oregon (for example, the capital gains deduction).

Example 1: Martha Anderson sold her residence for a total gain of $30,000. The gain is taxable by both Oregon and another state. Ms. Anderson reported total income of $24,000 to the other state. She had a tax liability of $2,500. Her Oregon tax is $2,000.

The mutually taxed gain is the total gain of $30,000 reduced by the 60 percent long-term capital gains deduction ($30,000 − $18,000 = $12,000).

Her Oregon credit is the lesser of:

1) $\dfrac{\$12,000}{\$24,000} \times \$2,500 = \$1,250$

OR

2) $12,000 × 8% = $960

Her credit is $960.

Deduction for taxes paid to the other state or country. You can't claim this credit and also claim the tax you showed as a deduction on the Oregon return. You must show an addition for the tax the credit is based upon.

Credit for taxes paid to another state. For the same gain you can't claim both this credit and a credit for taxes paid to another state. You don't have a choice. If you qualify for this credit you must claim it. You can't claim the credit for taxes paid to another state, even if it is greater.

Verification required. To claim this credit you must send a copy of the other state's or country's return and proof of payment.

Home care of an elderly person

If you pay expenses for the care of an elderly person, you may be eligible for this credit. The care must keep the elderly person from being placed in a nursing home. You and the elderly person must meet certain qualifications to be eligible for this credit.

Qualification for taxpayer

Your household income must be less than $17,500. Household income is the total taxable and nontaxable income of a husband and wife. See page 43 for more information about household income.

Qualifications for elderly person

The elderly person must meet **all** of the following to qualify:

- Be age 60 or older. If the person turned 60 during the year, you can't claim any expenses for the person prior to age 60.
- Household income is $7,500 or less. The support you give the elderly person is considered a gift. If your total payments are more than $500, include the excess in the elderly person's household income.
- Isn't in a nursing home or mental institution
- Doesn't get medical assistance from the Adult and Family Services Division.
- Qualifies for Oregon Project Independence, but doesn't receive services from Oregon Project Independence. Oregon Project Independence keeps elderly people from going to nursing homes unnecessarily. Services it provides include housekeeping, homemaking and home health. To qualify for the program the elderly person must have problems with:
    - communication
    - mobility
    - managing the household
    - nutrition
    - personal relationships
    - managing money
    - health
    - other problems caring for self

For more information about Oregon Project Independence, call the office of Senior Service, 378-4728.

Qualifying expenses

You may claim expenses you paid during the year for food, clothing, transportation and medical costs. Include transportation costs for medical needs and personal needs, such as shopping. Include medical costs if they qualify as an itemized deduction under the Internal Revenue Code (IRC 213). Don't include the amount you paid for lodging. Subtract from the amount you paid any reimbursement from insurance or from the elderly person.

Claiming the credit

The credit is equal to the lesser of 1) $250 or 2) 8 percent of the expenses you paid or incurred during the tax year. Contact the Oregon Department of Revenue for Form 150-101-024. Complete Part I of the form. Have the Oregon Department of Human Resources certify that the elderly person qualifies for the credit. Then complete Part II of the form. Attach the completed form to your Oregon income tax return.

Part-year and nonresidents

You may claim the full credit if the elderly person meets the qualifications. You aren't limited to a percentage.

Geothermal

Beginning in 1980, Oregon allows a credit for connecting a residence you own to a geothermal heating system. The system must be part of a qualified geothermal heating district. The credit is based on the actual cost of the connection and materials. Claim the credit for the year you connect to the system.

Qualifying residence

Claim this credit for connecting a residence you own. The building may be your principal residence. Or you may rent it to others to use as their principal residence. A mobile home or a floating home used as a principal residence qualifies.

Only one residence qualifies

Claim the credit for only one dwelling in any one year.

Example 1: Bob Harris connected his residence to a geothermal system in November 1981. In December 1981 he connected a rental he owns to a geothermal system. Mr. Harris may claim the costs of connecting only one of these homes. He may choose the one that gives him the largest credit. But he loses the costs of connecting the other home.

Residence computation

The credit is equal to 25 percent of your cost for materials and connection (not including your own labor). But your credit for the year can't exceed the lesser of 1) $1,000 or 2) your tax liability.

Example 2: Jean Black spent $3,000 for pipe, fixtures and labor to connect her home to a geothermal heating system. Here's how she figures her credit.

The lesser of:		
1) Connection costs	$3,000	
× 25%	× .25	$ 750
or		
2) Maximum credit		$1,000
Allowable credit		$ 750

Part-year residents and nonresidents may claim a percentage of the credit allowed a full-year resident. The percentage (not to exceed 100 percent) is your "Oregon percentage." Your Oregon percentage is on line 27 of the 1981 Form 40NR.

Example 3: Tom Johnson, a nonresident, spent $3,500 to connect a rental he owns in Klamath Falls to a geothermal heating district. His allowable Oregon percentage on Form 40NR, line 27 is 20 percent. Here's how he figures his credit.

The lesser of:		
1) Connection costs	$3,500	
× 25%	× .25	$ 875
or		
2) Maximum credit		$1,000
Full-year resident credit		
Lesser of (1) or (2)		875
Allowable percentage		× .20
Allowable Oregon credit		$ 175

Carryover

If your credit for the year exceeds your tax liability, you may carry forward the excess. Claim the excess as a credit against your Oregon tax for each of the next five years until it is used up. If the excess isn't used within five years, it is lost.

You can't carryover connection costs you lost because you connected more than one dwelling in a year or because you exceeded the $1,000 limit.

Alternative energy device credit

You can't claim the credit for connecting to a geothermal heating system if you also are claiming those same costs for an alternative energy device credit.

When to claim the credit

Claim the credit for the year you connect to the system, even if the cost isn't paid completely in that year. But to get the credit, you must have incurred an obligation for payment. An obligation for payment includes signing an invoice, sales slip or purchase order. It also includes charging the purchase to your customer credit account or credit card account.

Reforestation

You may be eligible for this credit if you develop underproductive forest land into a commercial forest. The credit is equal to 10 percent of your costs.

Eligible taxpayers. An individual, partnership, corporation or other legal entity may claim the credit. You must:

1) Own or lease between 10 and 500 acres of land in Oregon. The land must be capable of growing a commercial forest.

2) Develop the land into a commercial forest. You can't claim the credit to grow Christmas trees. You can't claim the credit for costs incurred to comply with the Oregon Forest Practices Act.

3) Spend at least $500 on the project. Don't include money you spent from state or federal cost-share programs.

Qualified expenses. Claim actual expenses for labor (not your own), supervision, materials and equipment operation. Don't claim the cost of equipment or tools that have a useful life of more than one year. You must depreciate these items. Claim the allowable depreciation expense as a project cost.

Subtract from your costs any reimbursement you receive from state or federal cost-share programs. Also, subtract costs incurred to comply with the Oregon Forest Practices Act or other legal responsibilities.

Example 1: Jim McDonald spends $3,000 to convert 20 acres of land to a commercial forest. He is reimbursed $2,000 by the federal Forestry Incentive Program. He must subtract the reimbursement from his costs before computing his credit.

Cost	$3,000
Reimbursement	-2,000
Amount spent	$1,000
	× 10%
Total credit	$ 100

Example 2: Use the same facts as in example 1 except that the reimbursement from the federal Forestry Incentives Program was $2,600.

Cost	$3,000
Reimbursement	-2,600
Total amount spent	$ 400
Credit	-0-

Since Mr. McDonald spent less than $500 of his own money after reimbursement, he isn't eligible for the credit.

How to claim the credit. Claim one-half of the credit (5 percent of the costs) for the year the project is completed. A service forester from the Oregon Department of Forestry must inspect the land. If your project qualifies, the state forester will issue a preliminary certificate. Attach a copy of this certificate to your Oregon return. Claim the balance of the credit (5 percent of the costs) plus 10 percent of any additional maintenance costs for the year the forest is established. Consider the forest established after trees have survived two years and don't have other plants threatening their survival. The service forester again must inspect your land. If the forest is established, the service forester will issue the final certificate. Attach a copy of the completed certificate to your return.

Recapture. If you don't establish the forest within two years, you must repay the credit. But if the forest failed due to reasons beyond your control, you may provide a plan for replanting the trees. The state forester must approve it. If you don't provide a plan for replanting, you must repay the credit you previously received. If you submit a plan for replanting and it's approved, you also must file a waiver of the statute of limitations with the Oregon Department of Revenue.

Carryover. The credit for the year can't exceed your tax liability. Carry forward any unused credit. You may claim the unused credit against your Oregon tax for each of the next three years. If the excess isn't used within three years, it's lost.

Change in ownership. If ownership changes between the time the project is completed and the forest established, only the original owner may claim the balance of the credit. If the forest isn't established, the original owner must repay the credit previously received. The new owner doesn't qualify for any credit on a project started by the original owner.

Depreciation and basis. You still may claim any depreciation or amortization otherwise allowed. Don't reduce your basis in the property by the amount of the credit.

For more information, contact the office of the Oregon State Department of Forestry serving the county where your lands are located.

Energy conservation facilities

If your business invested in a facility used to process or to use renewable energy resources, you may be eligible for a tax credit. The credit is allowed on both the personal income tax return and on the corporation tax return. A Subchapter S corporation shareholder may claim a portion of the corporation credit. The portion is based on the shareholder's prorata share of the cost of the facility.

Lessors of a qualified facility may claim the credit for 1982. Lessees can't claim the credit for 1982.

Qualifying facilities. The Oregon Department of Energy must certify the facility. The facility must be in Oregon. Construction or installation of the facility must begin between Oct. 3, 1979, and Dec. 31, 1983. The facility must be used to process or to use renewable energy resources such as straw, forest slash, farm or forest wastes, industrial wastes, solar energy, wind power, water power or geothermal energy.

For tax years after 1981 weatherization such as heat pumps, timers and insulation qualifies. Certain recycling equipment will also qualify.

The total credit can't exceed 35 percent of the cost of the facility. In each of the first two years you may claim a 10 percent credit of the certified cost. In each of the succeeding three years you may claim a 5 percent credit of the certified cost.

Carryover. Your credit for the year can't exceed your tax liability. If it does, you may carry forward any unused credit for each of the next three years. If the excess isn't used within three years, it's lost.

Depreciation and basis. You still may claim depreciation or amortization on the facility. Don't reduce your basis in the property by the amount of the credit. But if you receive a federal grant for a facility, you must reduce the cost dollar for dollar by the amount of the grant.

Effect on other credits. If you claim a credit for a pollution control facility or alternative energy device, you can't claim an energy conservation facility credit on the same facility or device.

How to claim the credit. You must receive a preliminary certificate from the Oregon Department of Energy before you begin installation of the facility. First contact the Oregon Department of Energy, 102 Labor and Industries Building, Salem, OR 97310. Complete an application. If your facility qualifies, the department will issue a preliminary certificate. After you have completed the facility, you must apply for final certification. Attach a copy of the final certification to your Oregon tax return when claiming the credit.

Change in ownership. If there is a change in ownership of the facility, the Oregon Department of Energy will revoke the facility's certification. The new owner may apply for a new certificate. If a new certificate is issued, the new owner may claim the balance of the credit not claimed by the original owner.

Part-year and nonresidents. You may claim the full credit. You don't have to multiply the credit by your Oregon percentage.

Oregon's property tax relief programs

Oregon has two major property tax relief programs.

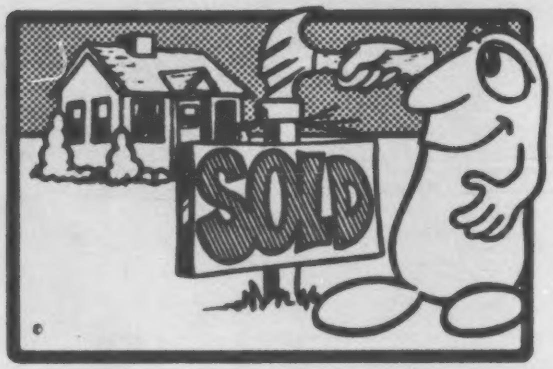
HARRP (Homeowner and Renter Refund Program) is for taxpayers with incomes less than $17,500. File Form 70R for this program.

PTR (Property Tax Relief Plan) doesn't have an income limit.

Homeowners and mobile home owners who own both their home and land file with their county assessor for this plan.

Renters, and mobile home residents who pay rent file Form 70R.

Property Tax Relief Plan (PTR)



Owner-occupied homes (PTR)

To qualify for 1982, you must own and live in your home on June 30, 1982. Temporary absence won't disqualify you. The state payment is for the taxes on your homestead. Your homestead includes your home and up to one acre, unless local zoning requires more land. Mobile home owners also qualify for Property Tax Relief (PTR). File for the property you own.

The state will pay up to 30 percent of the property tax bill you get in November 1982 The state payment doesn't include payment for taxes levied for bonded indebtedness or special assessments. It also won't pay for serial levies approved after Oct. 3, 1979, for financing capital construction. The state won't pay for any amount above the adjusted operating levy unless voters approve a new tax base. Usually, the adjusted levy is the 1979-80 levy adjusted for inflation and population growth. The maximum amount the state will pay under the Property Tax Relief Plan (PTR) will be determined next September and each year thereafter.

Most qualified Oregon property tax payers already have filed Form 553-003 with their county assessor for Oregon's Property Tax Relief Plan (PTR). You don't need to file with your county assessor again. Your taxes will be reduced automatically on your property tax statement in November 1982—and each year after that.

But do contact your **county assessor** if:
- you've never filed for this plan before, or
- you've moved, or
- you no longer use your property as your principal living place (for example, you rent it out to others) or
- you have a recorded life estate.

Renters (PTR)

To qualify, you must have rented an Oregon residence subject to property tax during 1981. You can't be a homeowner on Dec. 31, 1981. If you rented a mobile home, land, or both, file for relief on the rent you paid.

File Form 70R to claim rent relief for PTR. File only **one form** even if you qualify for renter relief under **both PTR and HARRP.** If you have too much income to qualify for HARRP, you still should file Form 70R to claim your renter PTR refund.

You will get a check in October 1982 for 4.7 percent of the rent you paid in 1981. The maximum amount of renter PTR will be determined in September 1982.

Property Tax Relief Plan (PTR)

Homeowners and mobile home owners

File by: **April 15, 1982.**	If you own and occupy: **by Jan. 1, 1982.**	And if: You haven't already filed for Property Tax Relief for this property.
File by: **April 15, 1982,** or within 30 days after you buy and occupy your property (whichever is later).	If you buy and occupy: after Jan. 1, 1982, but before July 1, 1982.	And if: Your property didn't already qualify for Property Tax Relief (For example: new construction, or previously rented, or no one filed for the property before).
File by: **April 15, 1983.**	If you buy and occupy: after Jan. 1, 1982, but before Jan. 1, 1983.	And if: Previous owner qualified property for Property Tax Relief. Check with your county assessor.
File by: **April 15, 1982,** and each year after that.	If you have a recorded life estate. Or you are a tenant stockholder of a cooperative housing corporation.	

See your county assessor for other qualifications and the PTR form.

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Homeowner and Renter Refund Program (HARRP)

Qualifications

You must meet all of the following requirements:
1) Your household income must be less than $17,500. (See: "Household" and "Household Income Defined"); and
2) You must have owned or rented an Oregon residence; and
3) Your Oregon residence must be subject to property tax.

If you are a homeowner or a mobile home owner, you also must meet these additional requirements:
1) You had a recorded interest (deed, sales contract or life estate) in the property; and
2) Your Oregon residence must have been your principal living place on Dec. 31, 1981.

Filing status

You can't file using more than one status. You may file as either a homeowner, mobile home owner or renter. Your filing status is determined on Dec. 31, 1981.

You can't claim rent you paid during the year if you owned your home on Dec. 31, 1981. You may claim Oregon rent you paid during the year even if you aren't renting on Dec. 31, 1981, as long as you didn't own your principal residence on that date.

People who own floating homes should file as if they were mobile home owners. Shareholders in a cooperative housing corporation and tenants of a nonprofit home for the elderly should file as homeowners.

Homeowners and mobile home owners must own their home, land or both. The Oregon residence must be your principal living place on Dec. 31, 1981.

Household defined

"Household" means anyone residing in the homestead during any part of the calendar year. A household includes both related and unrelated people.

File only one claim per household. The household members must decide among themselves who will file the claim for the address.

Household income defined

Unmarried claimant. Report only your household income on Form 70R. Don't include the income of others related or unrelated living in the household. Example: Don't include the income of children, parents, or roommates who live with you.

Example 1: Jane Jones and John Smith share the same household. Last year, John earned less than Jane. John should file a HARRP claim for both of them. He should include only his own household income.

Example 2: Arnold Rupert is single and owns his home. His mother lives with him. Mrs. Rupert receives Social Security income and a small veteran's pension. Mr. Rupert should include only his income when he files his HARRP claim. He doesn't have to include his mother's income.

Married claimant. Include the income of your spouse unless you are living apart on a permanent basis on Dec. 31, 1981. Household income doesn't include the income of other related or unrelated individuals who are living with you. If you are permanently separated from your spouse, file as an unmarried claimant. You may do this even if you file a joint tax return.

Example 3: Dick and Barb Hamilton are married. They resided in the house they jointly owned through July. In August, they separated and filed for divorce. Barb moved into a nearby apartment. Dick maintains their house. Dick's total income was $5,000. Barb's income was $10,000. Dick should claim all the property tax on their home, showing $5,000 household income. Barb may file as a renter with $10,000 household income and claim only the rent she paid. Because filing status is determined on Dec. 31, Barb is a renter and can't file as a homeowner. Because Dick and Barb are living apart, they don't have to combine their incomes.

Example 4: Otis and Mabel Bell are married. Mabel lived in the home the couple owned jointly on Dec. 31. She had household income from her own Social Security and her private pension of $8,000. Otis lived in a nursing home on Dec. 31. He had household income from Social Security of $4,000. Mabel should file as a homeowner. She should report her own household income of $8,000. Otis should file a separate Form 70R as a renter. Otis should report his household income of $4,000. Generally, 20 percent of the payments to the nursing home are considered rent.

What is included in household income. Household income includes all income (both taxable and nontaxable) received during the year. Include items reported in your federal adjusted gross income (AGI). You may also need to include items not in your federal AGI. See pages 46-47 for a complete list.

To determine household income, separate income (loss) from businesses, farms, rentals or royalties, dispositions of tangible or intangible property and net operating loss carrybacks or carryforwards. Combine all income from a particular source to arrive at the net income or loss from that source. Any net loss is limited to $1,000.

For example, you own a farm and have a $3,000 loss. You also are a partner in a partnership that's main activity is farming. You have income from the partnership of $1,000. Your net farm loss is $2,000. You may claim only $1,000 of this loss to compute your household income. Any net loss you have from any of the other sources mentioned also would be limited to $1,000 each. If you are claiming more than $1,000 loss on any line, attach a worksheet showing your computation.

Note: If you began depreciating business, farm or rental property during 1981, your business net income will be different for household income purposes than the amounts from your federal return. Oregon didn't adopt new federal laws passed after 1980. So the new federal Accelerated Cost Recovery System (ACRS) of depreciating property isn't allowable for Oregon.

Use an Oregon Depreciation Schedule (Form 150-101-025) to refigure your Oregon depreciation. Use a method allowable for federal purposes for 1980. If you filed Form 40 or Form 40NR you already did this. This also applies if you sold property during 1981 that you began depreciating after 1980. You must refigure gain on the sale using Oregon depreciation.

Oregon doesn't allow the disability income exclusion on federal Form 1040, line 28, in figuring household income. All the other income adjustments allowed on federal Form 1040 are allowed in figuring household income. If you filed federal Form 1040A (short form) or Oregon Form 40S (short form), you won't have any adjustments.

Note: If you began depreciating property as an employee business expense, you must refigure depreciation for Oregon. Use the Oregon Depreciation Schedule (Form 150-101-025) to refigure the depreciation. If your depreciation for Oregon is greater than your depreciation on your federal return, add the difference to employee business expenses. If your depreciation for Oregon is less than your depreciation on your federal return, subtract the difference from employee business expenses. Fill in the net amount on Form 70R, line 23.

If you claimed the subtraction for federal jobs tax credit wages or WIN credit wages on your Oregon income tax return, you also may reduce your household income by that amount. Don't show the subtraction as a separate household income item. Instead, reduce the income the subtraction relates to (i.e., business, farm, etc.). This is important due to the $1,000 limit to losses.

Example 4: Jerry Johnson had $3,000 of business income on his federal Schedule C. He claimed a $5,000 federal jobs tax credit for wages he paid in connection with that business. Mr. Johnson would show a $1,000 business loss on his Form 70R.

1) Business income	$3,000
2) Jobs tax subtraction	-5,000
3) Actual business loss	-$2,000
4) Limit	-1,000
5) Form 70R business loss (lesser of line 3 or line 4)	-$1,000

Homeowners

You may claim the property taxes actually assessed against your principal residence less the state Property Tax Relief Plan (PTR) payment. Don't subtract the discount for paying your taxes by Nov. 15. Don't add any special assessments such as sidewalks and street lighting.

Example 5: The Martins own their home and qualify for HARRP. In July 1979, they filed with their county for Property Tax Relief (PTR). Their property tax statement shows the following:

Total property tax levied	$600
Less: state payment	-160
Net property taxes	$440
Special assessment for sidewalks	5
Total tax due	$445
Early payment discount	-13
Total due if paid before Nov. 15	$432

The Martin's paid $432 on Nov. 1. They would show $440 property tax on Form 70R. This is the amount after the state payment (PTR) but before the special assessment and discount.

You may claim property taxes on the house and all the land included in the tax lot. If the land is more than one tax lot, you may claim only the taxes on the lot that includes your principal residence. If you own more than one house during the year, you may claim only the property taxes on the house you lived in on Dec. 31, 1981.

If your principal residence is on a tax lot that has significant business property, figure the portion of property taxes on your residence. You may claim the entire property tax on the land, but the property taxes on any building must be allocated between personal and business use.

You must include a copy of your property tax statement.

Mobile home residents (HARRP)

If you own both a mobile home and the land it is on, file as a mobile home owner. Combine the assessed property tax on the mobile home and the land. If you own a mobile home and rent the land, or vice versa, file as a mobile home owner and claim 17 percent of your rent plus your property taxes. See the homeowner section for the amount of property tax you claim. Your maximum refund is determined on the homeowner's table.

If you rented both your mobile home and land, file as a renter. See the renter section for more information.

If you were a renter before you owned your mobile home or land, don't claim any rent you paid at that time. You can claim only the rent you paid for your mobile home or space.

To get a refund, include a copy of your property tax statement and **complete** the rental schedule (if necessary).

Renters

If you rent, you can claim Oregon rent paid in 1981. The property rented must be subject to full property tax. Some on-campus student housing, adult student housing and fraternal organizations don't pay property taxes to support schools, so residents can't qualify for a refund. Rent paid to a related party, such as a parent, qualifies as long as there is a bona fide landlord-tenant relationship.

If persons who aren't spouses rent the same residence, only **one person** can file the claim for that residence. **Roommates can't claim their portion of the rent on separate claims.**

Example 6: Jane Jeffers rented by herself from January through August. In September, Jane Jeffers and Mary Mathews moved into another apartment together. Jane can claim her rent from January to August. Either Jane or Mary (but not both) may claim the rent from September through December. Jane and Mary can't each claim one-half the rent from September through December.

Example 7: Nancy Orange rents by herself from January to August. In September, Susan Scott moves in with Nancy. Only one may claim the rent paid for the apartment. Nancy may claim the rent paid for the entire year. Or Susan may claim the entire rent paid for September through December only if Nancy doesn't claim any refund for that year.

Other Information

Nursing home residents

If you live in a nursing home, you may file for a renter's refund. Nursing home payments include medical care, not just rent. So, 20 percent of the total care payments is considered rent. We will accept a higher percentage only if you can show the higher percentage is correct.

If you live in a nursing home on Dec. 31, 1981, while your spouse maintains your home, two 70R claim forms may be filed. Each spouse may file a refund for the property he or she occupies. Each only needs to show his or her own household income.

If you are single, and maintain a home while residing in the nursing home, you can claim your home as your principal residence rather than file as a renter based on your nursing home payments. If your home is rented while you are in the nursing home, you must file as a renter and claim only the rent paid to the nursing home.

Clergy

Members of the clergy who live in housing provided by the church may be eligible for a refund. You may claim a refund if you meet both the following requirements:

1) You pay rent for the use of the parsonage,
2) The property is subject to property tax.

Filing for deceased persons

You can't file a property tax refund claim on behalf of a person who died. But if a taxpayer files a claim and dies before the refund is issued, the estate is entitled to the refund. The personal representative of the probated estate should file Oregon Form 150-101-032, so the check can be issued to the estate. If the estate isn't probated, a qualifying next-of-kin may claim the refund.

Late filing and amendments

HARRP and renter PTR claims may be filed within three years after the due date of the return. Amendments also can be filed within three years of the original due date of the claim. Amendments due to a net operating loss carryback may be filed within three years after the due date of the return of the loss year. Amendments reducing the refund already received must be accompanied by payment plus interest at 1 percent per month. Find the interest starting date on the following table:

Year Being Amended	Interest Starting Date
1976 (first check)	April 16, 1977
1976 (second check)	Oct. 16, 1977
1977	Oct. 17, 1978
1978	Oct. 16, 1979
1979	Oct. 21, 1980
1980	Oct. 20, 1981

Special Shelter Allowance (Aid to Dependent Children)

If you received welfare during the year, you may have received Aid to Dependent Children Special Shelter Allowance. Reduce your HARRP refund by any amounts you received under this program. The Special Shelter Allowance won't reduce your refund under the Property Tax Relief Plan (PTR).

HOUSEHOLD INCOME CHECKLIST FOR HARRP

	Household Income	
	YES	NO
Alimony and separate maintenance	X	
Annuities and pensions, (reduced by cost recovery)	X	
[1] Business income (reduced by expenses)	X	
Child support	X	
Clergy's rental or housing allowance, in excess of expenses claimed to determine federal AGI	X	
Compensation for services performed		
Back pay	X	
Bonuses	X	
Clergy's fees	X	
Commissions	X	
Director's fees	X	
Fees in general (trustee, executor, jury duty)	X	
Lodging for convenience of employer		X
Meals for convenience of employer		X
Salaries	X	
Severance pay	X	
Tips	X	
Wages	X	
Disability income (entire amount)	X	
Dividends		
Dividends (taxable and nontaxable)	X	
Credit union savings account "dividends" (interest)	X	
Insurance policy "dividends" (return of premium)		X
Stock dividends	X	
Tax-exempt dividends	X	
Return of capital dividends		X
Earned income credit, advanced		X
[1] Estate and trust income (also see Inheritance)	X	
[1] Farm income (reduced by expenses)	X	
Agricultural program payments	X	
Proceeds from sale of crops and livestock	X	
Receipts from patronage dividends	X	
Rents	X	
Sale of services	X	
Fellowships	X	
Foster child care (reduced by expenses)	X	

	Household Income	
	YES	NO
Funeral expenses received		X
Gains on sales (receipts less cost)	X	
Oregon deferred gain on sale of residence		X
[2] Excluded gain for Oregon on sale of residence for persons 55 years old or older		X
Excluded long-term capital gain (50% or 60% deduction Sec. 1202)	X	
Gambling winnings (without reduction for losses)	X	
Gifts and grants (total more than $500 in value)		
Gifts from spouse in the same household		X
Gifts of money	X	
Gifts other than cash (report at fair-market value)	X	
Payment of indebtedness by another person	X	
Grants by federal government for rehabilitation of home		X
Gratuities	X	
Hobby income	X	
Honorariums	X	
Individual Retirement Account (IRA)	X	
Inheritance	X	
From spouse who resided in the same household		X
Insurance proceeds		
Accident and health	X	
Employee death benefits	X	
Life insurance	X	
Personal injury damages (less attorney fees)	X	
Sick pay (employer sickness and injury pay)	X	
Strike benefits	X	
Unemployment compensation (taxable and nontaxable)	X	
Worker's compensation	X	
Reimbursement of medical expense		X
Disability payments	X	
Property damage if included in federal income	X	

	Household Income	
	YES	NO
Interest (taxable and nontaxable)	X	
All Savers interest (before any exclusion)	X	
Municipal bonds and other securities	X	
Contracts	X	
Savings accounts	X	
Tax-exempt interest	X	
U.S. savings bonds	X	
[1]Losses on sales (to extent used in determining adjusted gross income)	X	
From sales of real or personal property (nonbusiness)		X
Lump sum distribution (less cost recovery)	X	
Military and veterans benefits		
Combat pay	X	
Disability pensions	X	
Educational benefits (GI Bill)	X	
Family allowances	X	
Pensions	X	
[1]Net operating loss carryback and carryforward	X	
[1]Partnership income (reduced by expenses)	X	
Parsonage (rental value) or housing allowance received by clergy in excess of expenses used in determining federal AGI	X	
Prizes and awards	X	
Pensions and annuities (reduced by cost recovery)	X	
Railroad Retirement Act Benefits--See Social Security and Railroad Retirement Act Benefits	X	
Refunds		
Earned income credit		X
Federal tax		X
State tax (if included in federal AGI)	X	
Property tax		X
Reimbursements (in excess of expenses incurred)	X	
For moving expense	X	
For travel	X	
[1]Rental and royalty income (reduced by expenses)	X	

	Household Income	
	YES	NO
Residence sales—See gains on sales	X	
Retirement benefits—See pensions, Social Security and Railroad Retirement Act Benefits	X	
Sales—See gains on sales and losses on sales		
Scholarships (excess more than $500)	X	
Sick pay	X	
Social Security and Railroad Retirement Act Benefits	X	
Old age benefits	X	
Disability pension	X	
Medicare premiums deducted from Social Security	X	
Medicare payments of medical expenses		X
Survivor benefits	X	
Children's benefits paid to your child		X
Children's benefits paid to parents		X
Strike benefits	X	
Stipends (excess more than $500)	X	
Trust income	X	
Unemployment compensation	X	
Wages	X	
Welfare benefits	X	
Aid to blind and disabled	X	
Aid to dependent children	X	
Child care payments	X	
Child support included in welfare	X	
Food stamps		X
Old age assistance	X	
Surplus food		X
Direct payments to nursing home	X	
Medical payments to doctors		X
Special Shelter Allowance		X
Women, infants and children program (WIC)		X

HOUSEHOLD INCOME FOOTNOTES

1/Losses limited to $1,000 in 1977 and after.

2/Excluded gain on sales of residences for persons 65 or older is also excluded for sales before July 27, 1978.

1982 ESTIMATED TAX

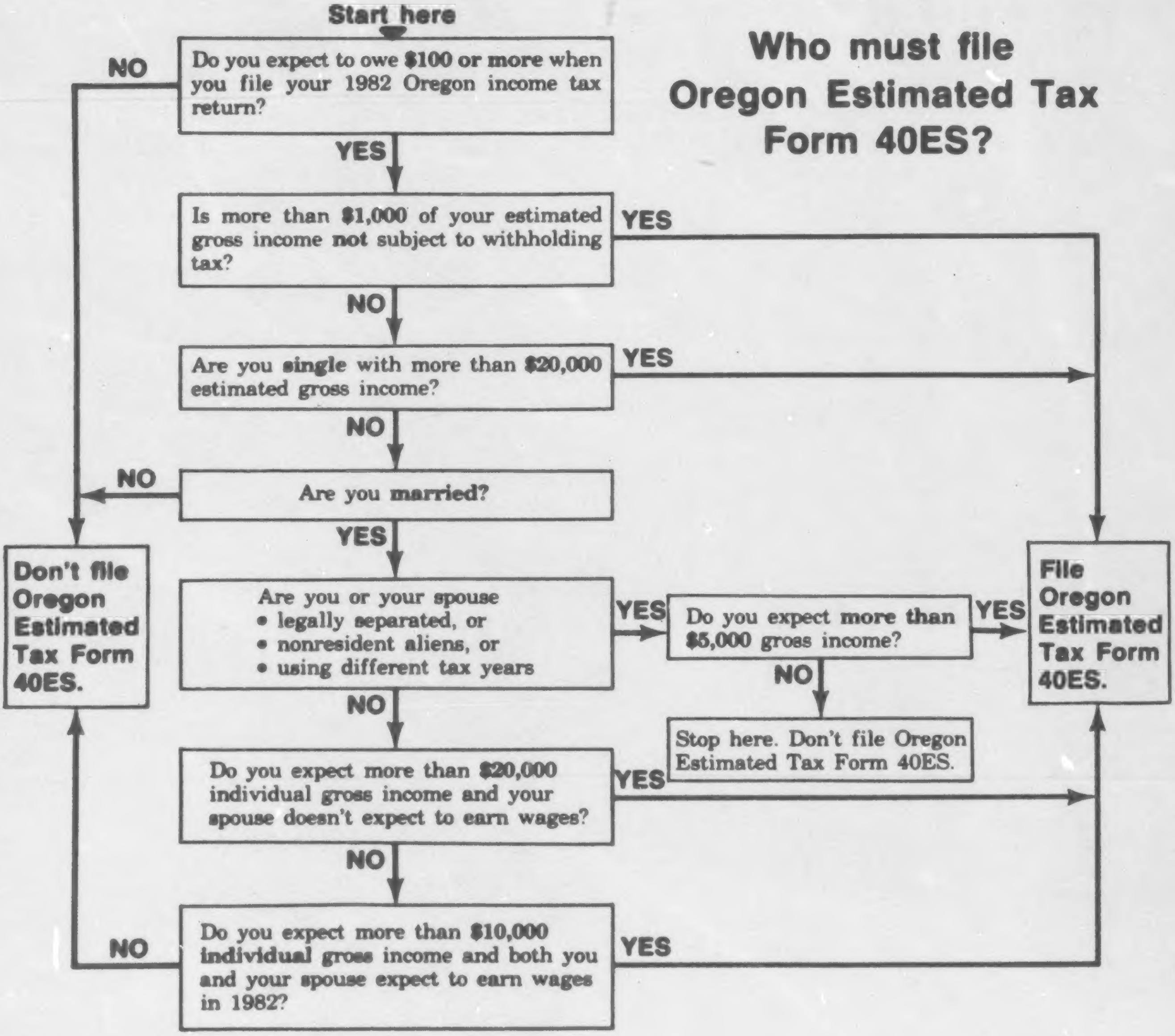
Oregon taxpayers must estimate and pay their Oregon income tax on a pay-as-you-go basis. Oregon's estimated tax system is similar to the federal estimated tax system. But when you figure estimated tax for Oregon:

- Use Oregon income tax laws and tax rates.
- Include any Oregon minimum tax.
- Don't include self-employment tax. Self-employment tax doesn't apply to Oregon.

Generally, you must pay estimated tax if you expect to owe $100 or more when you file your 1982 Oregon income tax return. The tax you owe is your Oregon tax—after you subtract your credits and the tax withheld from your wages—but before you subtract any 1981 refund you applied to your 1982 estimated tax. Include minimum tax.

A new law requires taxpayers to pay estimated tax quarterly. This law also affects how you figure the exceptions to the underpayment of estimated tax for 1982. For more information see due dates, page 50, and exceptions to paying interest on underpayment, page 52.

Who must file Oregon Estimated Tax Form 40ES?


Start here
Do you expect to owe $100 or more when you file your 1982 Oregon income tax return?
NO
YES
Is more than $1,000 of your estimated gross income not subject to withholding tax?
YES
NO
Are you single with more than $20,000 estimated gross income?
YES
NO
Are you married?
NO
YES
Don't file Oregon Estimated Tax Form 40ES.
Are you or your spouse • legally separated, or • nonresident aliens, or • using different tax years
YES
Do you expect more than $5,000 gross income?
YES
NO
Stop here. Don't file Oregon Estimated Tax Form 40ES.
File Oregon Estimated Tax Form 40ES.
NO
Do you expect more than $20,000 individual gross income and your spouse doesn't expect to earn wages?
YES
NO
Do you expect more than $10,000 individual gross income and both you and your spouse expect to earn wages in 1982?
NO
YES

You must pay estimated tax if:

1. You expect to owe $100 or more on your 1982 Oregon income tax return, AND

   you reasonably expect your 1982 gross income to include more than $1,000 of income not subject to withholding of Oregon tax

OR

2. You expect to owe $100 or more on your 1982 Oregon income tax return, AND

   you expect your 1982 gross income to be more than:

   - **$20,000**—single taxpayer, including head of household or surviving spouse, or
   - **$20,000** individual gross income—married, spouse doesn't expect to earn wages in 1982, eligible to file a joint estimated tax form*, or
   - **$10,000** individual gross income—married, both spouses expect to earn wages in 1982, eligible to file a joint estimated tax form*, or
   - **$5,000** individual gross income—married, not eligible to file a joint estimated tax form*

*You are eligible to file a joint estimated tax form unless you or your spouse are
1) a nonresident alien, or
2) legally separated, or
3) have different tax years

Gross income

Generally, gross income includes all income you receive during the year. But there are some exceptions.

Gross income includes wages, interest and dividends. It also includes gross profit from rentals, royalties, businesses, farming, fishing and the sale of property. Don't subtract expenses, except cost of goods sold, when figuring gross profit. Other items also are part of gross income.

Gross income doesn't include nontaxable items such as Social Security, railroad retirement or welfare payments.

Remember, Oregon didn't adopt new federal tax laws passed after 1980. Your Oregon gross income may not be the same as your federal gross income.

Farming and fishing

Farmers and fishers don't need to pay estimated tax if they expect at least two-thirds of their 1982 gross income from farming or fishing. This includes oyster farming.

To decide if you need to pay estimated tax, figure both your 1981 gross income and your estimated 1982 gross income. If at least two-thirds of your 1981 gross income or two-thirds of your estimated 1982 gross income is from farming or fishing, you don't need to pay estimated tax.

You do need to file Form 10 (Underpayment of Oregon Estimated Tax) with your tax return to show you qualify as a farmer or fisher. File Form 10 with your Oregon income tax return. To get Form 10 write to: Forms, Oregon Department of Revenue, Revenue Building, Salem, OR 97310.

Farmers—Generally, use the amount on line 31 or line 87, federal Schedule F, to determine your gross income from farming.

Fishers—Generally, use the amount on line 3, federal Schedule C, to determine your gross income from fishing.

Example 1. Richard Johnson is a farmer. He wants to know if he must pay estimated tax.

On his 1981 return:	
Wages	$12,000
Interest	700
Farm income	3,000
Total adjusted gross income	$15,700

On his farm schedule:	
Gross profit from crop sales	$35,000
Total expenses	-32,000
Net farm profit	$ 3,000

His gross income:	
Wages	$12,000
Interest	700
Farm gross profit	35,000
Total gross income	$47,700

2/3 of $47,700 = $31,800
Farm gross profit = 35,000

Mr. Johnson doesn't have to file an estimated tax form. More than two-thirds of his gross income in 1981 was from farming.

Example 2. Janet Smith is a farmer. She wants to know if she must pay estimated tax.

On her 1981 return:	
Business loss	-$1,500
Net long-term capital gain	10,000
Farm income	18,500
Adjusted gross income	$27,000
On her farm schedule:	
Profit from crop sales	$10,000
Profit from livestock sold	17,000
Farm gross profit	$27,000
Total expenses	-8,500
Net farm profit	$18,500
On her business schedule:	
Gross receipts	$20,000
Cost of goods sold	-12,000
Gross profit	$8,000
Total expenses	9,500
Net business loss	-$1,500
Her gross income:	
Business gross profit	$ 8,000
Total long-term capital gain	25,000
Farm gross profit	27,000
Total gross income	$60,000
2/3 of $60,000 =	$40,000
Farm gross profit =	$27,000

Her estimated 1982 gross income and gross farm income are about the same as her 1981 incomes. Less than two-thirds of her gross income is from farming. Ms. Smith will have to file an estimated tax form. She doesn't meet the gross income tests.

Pensions

If you retired or soon will retire, you may need to file an estimated tax Form 40ES. As an alternative, you may have Oregon income tax withheld from your pension. Contact the payer of your pension to see if this is possible with your plan.

Aliens

Filing requirements are the same for both United States citizens and aliens (nonresident and resident). If you are married but you or your spouse are a nonresident alien, you must file separate estimated tax forms. In that case, file Form 40ES if your individual gross income is more than $5,000.

Fiduciaries

Don't file Form 40ES. You don't need to pay estimated tax on behalf of an estate or trust.

Filing status

The filing status you claim on your estimated tax Form 40ES may differ from the filing status you claim on your 1982 federal and Oregon income tax returns. If you and your spouse file a joint Form 40ES but file separate income tax returns, you may apportion the estimated tax you paid any way you want on your separate income tax returns. But the amount on both separate returns can't total more than your estimated tax payments.

Due dates

Calendar-year taxpayers
1982 estimated tax

First-quarter estimated tax—due April 15, 1982
Second-quarter estimated tax—due June 15, 1982
Third-quarter estimated tax—due Sept. 15, 1982
Fourth-quarter estimated tax—due Jan. 17, 1983

If you find you still owe more income tax for 1982, pay the balance by April 15, 1983, with your 1982 Oregon income tax return.

Fiscal-year taxpayers
1982 estimated tax

Pay one-fourth of your Oregon estimated tax on the 15th day of the fourth, sixth and ninth months following the close of your tax year and the 15th day of the first month of the succeeding year. If the due date falls on a Saturday, Sunday or legal holiday, use the next regular workday.

Example 3: Your fiscal year ends April 30, 1982. The estimated tax Form 40ES and the payment are due:

- Aug. 16, 1982
- Oct. 15, 1982
- Jan. 17, 1983
- May 16, 1983

Those are the correct payment dates because Aug. 15, 1982, is a Sunday: Jan. 15, 1983, is a Saturday; and May 15, 1983, is a Sunday.

Special cases

—You don't need to make the fourth-quarter payment (Jan. 17, 1983) if:
  - you file your 1982 Oregon tax return by Jan. 31, 1983 , AND
  - you pay all tax due with your return.

But you still need to pay estimated tax on the earlier payment dates.

Additional withholding

If Oregon tax is withheld from your wages, but you still expect to owe $100 or more when you file your 1982 income tax return, you may ask your employer to increase the amount of Oregon tax withheld from your pay. That way you can avoid paying estimated tax.

How to figure your estimated tax

Figure your 1982 estimated tax the same way you figure your 1981 Oregon income tax. Your Oregon taxable income is your expected federal adjusted gross income; plus (or minus) Oregon changes to federal income; plus additions; minus your allowable Oregon subtractions, deductions (net itemized or standard) and exemptions.

Use the same laws you use for your 1981 Oregon income tax return. Base your Oregon tax on the resulting Oregon taxable income. Add any minimum tax you expect. Subtract your estimated Oregon income tax withheld from your wages and subtract your credits. The net tax is your estimated tax.

Use your 1981 federal return and your 1981 Oregon return and the estimated tax worksheet to figure your estimated tax.

Part-year and nonresidents

Use the chart, page 48, to see if you need to pay 1982 Oregon estimated tax. For purposes of the chart, your gross income is the gross income you expect to earn **in and out** of Oregon.

But figure your 1982 Oregon estimated tax only on your income taxable by Oregon. Use a 1981 Oregon Form 40NR (part-year and nonresident income tax return) as a guide to estimating your 1982 income taxable by Oregon. Then complete the worksheet, page 7, of the estimated tax packet. Follow the same instructions for filing Form 40ES and paying estimated tax as full-year residents use.

Short-year taxpayers

You don't need to file Form 40ES if the short taxable year is less than **four** months. If the short year is longer than four months, you may need to file Form 40ES.

Where to send Form 40ES

- Mail your Oregon Form 40ES to Oregon Department of Revenue P.O. Box **14950**, Salem, OR 97310.
- Don't include your Oregon estimated tax Form 40ES and payment with your Oregon income tax return. **Mail Form 40ES separately.**
- Be sure to write your Social Security number(s) on your Form 40ES.

Applying your 1981 income tax refund to your estimated tax payment

Most people who get a 1981 income tax refund won't need to pay estimated tax. But if you expect your financial situation to change in 1982, you may need to pay estimated tax. You may apply part or all of your 1981 income tax refund to your 1982 estimated tax payments.

What to do if your estimated 1982 Oregon income deductions or credits change

Amended estimated tax

Did your expected income or deductions change after you made your first estimated tax payment? If so, refigure your 1982 estimated tax using the new income or deductions. Then use the amended estimated tax worksheet, in the 40ES tax packet, page 6, to figure how much to pay.

Didn't pay on April 15, 1982?

Even if you don't need to pay estimated tax on April 15...

If your expected income, deductions or credits change, you may need to file estimated tax at a later date.

Fill out the estimated tax worksheet, page 7, of the estimated tax packet.

If your income changes between April 1 and June 2, 1982, file by June 15, 1982. Make three equal payments. If your income changes between June 1 and Sept. 2, 1982, file by Sept. 15, 1982. Make two equal payments. If your income changes after Sept. 1, 1982, file by Jan. 17, 1983. Pay your estimated tax in full.

Interest on underpayment of estimated tax

You will have an underpayment if you pay less than 80 percent of the tax due on each payment date. You will be charged interest on the underpayment. Interest is **1.5 percent** per month or part of a month. Interest starts on the day after each estimated tax payment is due. Interest will be charged each month or part of a month until we receive your payment or until April 15, 1983, whichever comes first. After that time you will be charged penalty and interest for delinquent tax.

Exceptions

to paying interest on an underpayment

There are four exceptions to paying interest on an underpayment. The exceptions for Oregon are similar to the federal exceptions.

You won't need to pay interest on the underpayment of estimated tax if each of your estimated tax payments is equal to or greater than any one of the exceptions for the same period. Use Form 10, Underpayment of Oregon Estimated Tax, to figure the exceptions. Attach Form 10 to Form 40 or Form 40NR. Check the box on line 48, Form 40: or line 67, Form 40NR, to show Form 10 is attached.

Read the following section for an explanation of the exceptions. The explanation is for the 1982 tax year. There are four quarterly-payments for the 1982 tax year.

You only needed to make the first two quarterly-payments for the 1981 tax year. You may use the information in the following section for the first two payment-periods. Or read the information in the 1980 **Publication 17½**. Figure the exceptions for each quarter.

1. Last year's tax.
Oregon tax withheld from your wages and your 1982 Oregon estimated tax payments equal or are more than the net income tax on your 1981 Oregon income tax return (Form 40S, line 12; Form 40, line 37; Form 40NR, line 59).

Total your 1982 tax withheld and estimated tax payments from the beginning of the year to the payment date.

To figure if you meet the exception for the first payment date, multiply your 1981 net Oregon income tax by 25 percent.

To figure if you meet the exception for the second payment date, multiply your 1981 net Oregon income tax by 50 percent.

For the third payment date multiply your 1981 net Oregon income tax by 75 percent.

For the fourth payment use your total 1981 net Oregon income tax. Include any 1981 minimum tax.

Your 1981 Oregon income tax return must cover 12 months. It also must show an amount on the line for net income tax.

Example: Nancy O'Neil is single with no dependents.

Nancy's 1981 Oregon tax liability	$ 1,700
On her 1982 Oregon income tax return:	
Taxable income for 1982	$27,500
Tax for 1982	2,595
Estimated tax payments:	
4-15-82	450
6-15-82	450
9-15-82	350
1-17-83	450
Tax paid with the return	895

First-quarter payment	
25% of her 1981 tax ($1,700 × .25 = $425)	$ 425
Estimated tax payment to 4-15-81	$ 450

Ms. O'Neil's estimated tax payment of $450 is more than 25 percent of her 1981 tax liability. Ms. O'Neil doesn't need to pay interest on underpayment of estimated tax for the first quarter.

Second-quarter payment	
50% of her 1981 tax ($1,700 × .50 = $850)	$ 850
Estimated tax payment to 6-15-81 ($450 + $450 = $900)	$ 900

Ms. O'Neil still meets this exception.

Third-quarter payment	
75% of her 1981 tax ($1,700 × .75 = $1,275)	$1,275
Estimated tax payment to 9-15-82 ($450 + $450 + $350 = $1,250)	$1,250

Ms. O'Neil's 1982 estimated tax payments of $1,250 to date are less than 75 percent of her 1981 tax liability. She doesn't qualify for this exception for this quarter. If she doesn't qualify for another exception, she needs to pay interest for underpayment of estimated tax.

Fourth-quarter payment	
100% of her 1981 tax	$1,700
Estimated tax payment to 1-17-83 ($450 + $450 + $350 + $450 = $1,700)	$1,700

Ms. O'Neil's 1982 estimated tax payments of $1,700 equal 100 percent of her 1981 tax liability. She doesn't need to pay interest for underpayment of estimated tax for this quarter.

2. Last year's income.
Oregon tax withheld from your wages and your Oregon estimated tax payments for 1982 equal or are more than the tax due on your 1981 income using 1982 tax rates. Use the number of personal exemptions allowed for 1982. Use other items such as income and deductions from your 1981 tax return.

Figure your 1982 tax withheld and estimated tax payments from the beginning of the year to the payment date. To figure if you meet the exception for the first payment date, multiply your revised 1981 net Oregon income tax by 25 percent.

For the second payment date, multiply your revised 1981 net Oregon income tax by 50 percent. For the third payment date, multiply the tax by 75 percent. Use 100 percent of the tax for the fourth payment date.

Example: Karen and Mike Wilson are married and had one dependent in 1981.

On their 1981 Oregon income tax return:

Taxable income for 1981	$17,750
Tax liability for 1981	1,465

For tax year 1982, Mr. and Mrs. Wilson have two dependents.

On their 1982 Oregon income tax return:

Taxable income for 1982	$23,425
Tax liability for 1982	2,033
Tax withheld from wages	1,000
(One-fourth of their tax withheld)	250
Estimated tax payments:	
4-15-82	100
6-15-82	100
9-15-82	100
1-17-83	100
Total estimated tax payments	$ 400

Tax liability on 1981 income using 1982 exemptions and tax rate:

1981 taxable income	$17,750
Less: additional 1982 exemption	-1,000
	$16,750
Tax using 1982 tax rate	$ 1,365

First quarter

25% of tax using 1982 tax rates and exemptions ($1,365 × .25)	$ 341
Withholding and estimated tax payments to 4-15-82 ($100 + $250)	350

The Wilsons meet the exception. Their estimated tax payments including withholding are more than 25 percent of the tax using 1982 tax rates and exemptions.

Second quarter

50% of tax using 1982 tax rates and exemptions ($1,365 × .50)	$ 683
Withholding and estimated tax payments to 6-15-82 ($100 + $250 + $100 + $250)	$ 700

The Wilsons meet the exception. Their estimated tax payments including withholding are more than 50 percent of the tax using 1982 tax rates and exemptions.

Third quarter

75% of tax using 1982 tax rates and exemptions ($1,365 × .75)	$1,024
Withholding and estimated tax payments to 9-15-82 ($300 in estimated and $750 withholding)	$1,050

The Wilson's meet the exception. Their estimated tax payments including withholding are more than 75 percent of the tax using 1982 tax rates and exemptions.

Fourth quarter

100% of tax using 1982 tax rates and exemptions	$1,365
Withholding and estimated tax payments to 1-17-83 ($400 estimated tax and $1,000 withholding)	$1,400

The Wilson's meet the exception. Their estimated tax payments including withholding are more than 100 percent of the tax using 1982 tax rates and exemptions.

3. Annualized income.

Your 1982 estimated tax payments equal or are more than 80 percent of the tax on your annualized taxable income for the part of the year that applies to the underpayment. This exception doesn't apply to the fourth payment period. First, figure your annualized Oregon tax. Multiply your annualized Oregon tax by 80 percent. Compare your actual payment to that result.

Computing your annualized tax.

Count your Oregon income from the beginning of the year to the end of the month preceeding the estimated tax due date. For example, you are annualizing your income through June 15, 1982. Include only your income from January through May. Don't include income earned between June 1 and June 15.

Next, figure your Oregon itemized deductions, additions and subtractions for the same period. You don't need to figure your itemized deductions if you are taking the standard deduction.

Then, use the following formula to figure your annualized income, itemized deductions, additions and subtractions.

First payment
Actual amount 1-1-82 to
3-31-82 × 12 months
÷ 3 months
or = annualized amount
Actual amount 1-1-82 to
3-31-82 ×4

Second payment
Actual amount 1-1-82 to
5-31-82 × 12 months
÷ 5 months
or = annualized amount
Actual amount 1-1-82 to
5-31-82 × 2.4

Third payment
Actual amount 1-1-82 to
8-31-82 × 12 months
÷ 8 months
or = annualized amount
Actual Amount 1-1-82 to
8-31-82 × 1.5

To figure your annualized Oregon taxable income, add your annualized Oregon additions to your annualized Oregon adjusted gross income. Then subtract:

1) Your annualized Oregon subtractions (except federal taxes). Use the previous formulas. Use your subtractions from Jan. 1, 1982, to date indicated.

2) Your annualized itemized deductions. Use the previous formulas. Use your itemized deductions from Jan. 1, 1982, to date indicated.

3) Your standard deduction based on your annualized income if you aren't itemizing.

4) Exemptions you expect to claim.

5) Federal tax figured on your annualized federal taxable income. Use the federal tax rate charts to determine the tax on your annualized federal taxable income.

Use the following formula(s) to decide how much tax you should have paid.

First quarter
annualized tax × ¼ × 80%
or
.2 × annualized tax

Second quarter
annualized tax × ½ × 80%
or
.4 × annualized tax

Third quarter
annualized tax × ¾ × 80%
or
.6 × annualized tax

Compare the amount you should have paid to your actual payments. Include tax withheld from your wages but only the amount for the period of the estimated tax payment.

Example: Bill and Mary Morris are calendar-year taxpayers. They are married with no dependents. They filed Form 40ES and paid $160 on each of the four payment dates. They had no withholding tax. For 1982 they had the following income:

Period	Oregon adjusted gross income
1-1-82 to 3-31-82	$ 4,000
1-1-82 to 5-31-82	7,000
1-1-82 to 8-31-82	10,000
1-1-82 to 12-31-82	18,000

First payment

Annualized income		
$4,000 × 4 =		$16,000
Less:		
Exemptions	-$2,000	
Standard deduction	-1,500	
Federal tax subtraction	-1,850	
Total deductions		-5,350
Annualized taxable income		$10,650
Oregon tax		$ 755
80 percent of first quarter's tax		
755 ÷ ¼ × 80%		$ 151
Payments		
Estimated tax	$ 160	
Total payments		$ 160

Their total tax payment of $160 is more than 80 percent of their annualized tax for the first quarter ($151). They don't have interest on the underpayment for the first quarter.

Second payment

Annualized income		
$7,000 × 2.4 =		$16,800
Less:		
Exemptions	-$2,000	
Standard deduction	-1,500	
Federal tax subtraction (maximum $7,000)	-2,000	
Total deductions		-$ 5,500
Oregon taxable income		$11,300
Oregon tax		$ 820
80 percent of the second quarter's tax		
820 ÷ ½ × 80%		$ 328
Payments		
First payment	$160	
Second payment	160	
Total payments		$320

Their tax payments of $320 aren't more than 80 percent of their annualized tax for the second quarter

($328). Bill and Mary have to pay interest on the second-quarter underpayment unless they meet another exception.

Third payment		
Annualized income ($10,000 × 1.5) =		$16,800
Less:		
Exemptions	-$2,000	
Standard deduction	-1,500	
Federal tax subtraction	-1,640	
Total deductions		-5,140
Oregon taxable income		$ 9,860
Oregon tax		$ 677
80 percent of the second quarter's tax (677 ÷ ¾ × .80)		$ 406
Payments		
First payment	$160	
Second payment	160	
Third payment	160	
Total payments		$ 480

The payments ($480) are more than 80 percent of the tax on annualized income for the period. Bill and Mary don't need to pay interest on their Sept. 15, 1982, underpayment.

4. Actual tax.
You paid 90 percent or more of your actual tax for the period. Count your income from the beginning of the year to the end of the month preceding the estimated tax date. Use your actual itemized deductions, additions and subtractions (except federal tax) for the period. Figure your federal tax based on your federal taxable income for the period. Figure your Oregon standard deduction on your actual income for the period. This exception can't be used for the fourth payment period.

Example: John and Jill Jackson are married and have one dependent. Their income from Jan. 1, 1982, to March 31, 1982, is $8,000. Their income from April 1, 1982, to May 30, 1982, is $9,000. Their income from June 1, 1982, to Aug. 31, 1982, is $10,000. The Jacksons applied $150 of their 1981 refund to their 1982 estimated tax. They will claim the standard deduction. They paid $600 estimated tax on June 15, 1982. The Jacksons paid $300 estimated tax on Sept. 15, 1982. They also had $300 withheld from their wages. Here's how they determine if they qualify for the exceptions:

First-quarter payment		
Income		$8,000
Less: Exemptions	-$3,000	
Standard deduction	-1,050	
Federal tax subtraction	-221	
Total deductions		-$4,271
Oregon taxable income		$3,729
Oregon tax		$ 194
90% × $194		175
Payments		
Tax withheld (300 ÷ 4)	$ 75	
1981 refund applied to 1982 estimated tax	150	
Total payments	$225	

Their tax payments of $225 are more than 90 percent of the actual net tax for the quarter ($175). The Jacksons meet the exception for the first quarter.

Second-quarter payment		
Income		$17,000
Less: Exemptions	-$3,000	
Standard deduction	-1,500	
Federal tax subtraction	-1,840	
Total deductions		-6,340
Oregon taxable income		$10,660
Oregon tax		$ 756
90% × $756		$ 680
Payments		
Tax withheld ($300 ÷ 2)	$ 150	
1981 refund applied to 1982 estimated tax	150	
First payment	600	
Total payments		$ 900

Their tax payments of $900 are more than 90 percent of the tax due for the period ($680). The Jacksons meet the exception for the second quarter.

Third-quarter payment		
Income		$27,000
Less: Exemptions	-$3,000	
Standard deduction	-1,500	
Federal tax subtraction	-4,330	
Total deductions		-8,830
Oregon taxable income		$18,170
Oregon tax		$ 1,507
90% × 1,507		$ 1,356
Payments		
Tax withheld ($300 ÷ ¾)	225	
1981 refund applied to 1982 estimated tax	150	
First payment	600	
Second payment	300	
Total payments		$ 1,275

Their tax payments of $1,275 are less than 90 percent of the tax due for the period. The Jacksons don't meet the exception for the third quarter. They must pay interest on underpayment of estimated tax unless they meet another exception.

FULL-YEAR RESIDENTS ONLY
SHORT FORM

FORM
40S

OREGON INDIVIDUAL INCOME TAX RETURN

1981

For office use only			
Code	Tax	P & I	Payment
Date received	Postmark date	Penalty date	

Last name	First name and initial	Social Security number
Spouse's last name if different and joint return	Spouse's first name and initial if joint return	Spouse's Social Security number
Mailing address		Telephone number
City	State / ZIP Code	County

Did you file an Oregon income tax return for 1980? ☐ Yes ☐ No
If NO, give reason: ______

For office use only

Filing Status

Check only one box

1 ☐ Single
2 ☐ Married filing jointly
3 ☐ Married filing separately ______ (Spouse's name)
4 ☐ Unmarried head of household ______ (Person who qualifies you)
5 ☐ Qualifying widow(er) with dependent child

Exemptions

	Regular	65 or older	Blind	Severely disabled	Total
Yourself	☐	☐	☐	☐	☐
Spouse	☐	☐	☐	☐	☐
Dependents ______ (First names)					☐
Total exemptions claimed ●					☐

Attach W-2 wage slips and payment here

1	Wages, salaries and other pay for work	● 1	
2	Interest 2a ______ plus dividends 2b ______, minus exclusion 2c ______	● 2	
3	Unemployment compensation. Fill in amount from worksheet, page 8	● 3	
4	Total. Add lines 1, 2 and 3	4	
5	1981 federal tax. See instructions, page 9	● 5	
6	Your standard deduction from table, page 10	6	
7	Multiply your total exemptions by $1,000	7	
8	Add lines 5, 6 and 7	8	
9	Oregon taxable income. Line 4 minus line 8. If line 8 is more than line 4, fill in -0-	9	
10	Tax from tables, pages 15 to 18	10	
11	Total credits from line H on back of this form	● 11	
12	Net income tax. Line 10 minus line 11. If line 11 is more than line 10, fill in -0-	12	
13	Oregon tax withheld from wages. **Attach your W-2 wage slips**	● 13	
14	Refund. If line 13 is more than line 12, you have a refund. Subtract line 12 from line 13	● 14	
	I wish to donate part of my tax refund to the following:		
15	Oregon Nongame Wildlife Fund $1 ☐, $5 ☐, $10 ☐, Other $______, None ☐	● 15	
16	Oregon Arts Development Fund $1 ☐, $5 ☐, $10 ☐, Other $______, None ☐	● 16	
17	Total donations. Add lines 15 and 16. A donation will reduce your refund	17	
18	**NET REFUND.** Line 14 minus line 17. This is your net refund	● 18	
19	**TAX-TO-PAY.** If line 12 is more than line 13, you have tax-to-pay. Subtract line 13 from line 12	● 19	

Filing a Homeowner and Renter Refund Form 70R? Attach Form 70R to this return.

Under penalties for false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. If prepared by a person other than taxpayer, this declaration is based on all information of which the preparer has any knowledge.

SIGN HERE

Your signature ______ Date ______
Spouse's signature (If filing jointly, BOTH must sign even if only one had income) ______

Signature of preparer other than taxpayer ______ License no ______
Address ______

Mail refund returns to: REFUND, P.O. Box 14700, Salem, OR 97310
Mail tax-to-pay returns to: Oregon Department of Revenue, P.O. Box 14555, Salem, OR 97310

150-101-044 (9-81)

CREDITS

See instructions below. Fill in amounts for the credits you claim. Attach necessary proof. If you aren't claiming credits, skip line 11.

A	Credit for the elderly. 15% of your federal credit. **Attach federal Schedules R and RP**	A		
B	Child care credit. 40% of your federal credit. **Attach federal Form 2441**	B		
C	Credit for income tax paid to another state. **Attach copy of return and proof of payment**	C		
D	Political contribution credit. See limits below. **Attach copy of receipt or canceled check**	D		
E	Weatherization credit. For users of certain fuels. **Attach weatherization certificate**	E		
F	Credit for home care of an elderly person. **Attach certificate**	F		
G	Credit for loss of use of limbs (disability credit)	G		
H	**Total credits.** Add lines A-G. Fill in total on line 11 (front of this form)	H		

Other credits are available. See pages 28-30 for instructions. Use Form 40 instead of 40S to claim credits not listed above.

Instructions for credits

A. Credit for the elderly. Choose the lesser of: 15 percent of your federal tax from line 37, Form 1040; OR 15 percent of your federal credit for the elderly, line 39, Form 1040. Fill in the lesser amount on line A above. **Attach Schedules R and RP** to your return.

B. Child care credit. Figure 40 percent of your federal child care credit from federal Form 2441. Your federal child care credit can't be more than your federal tax from line 37, federal Form 1040, less the following federal credits: foreign tax credit, credit for the elderly, investment credit and political contribution credit. **Attach federal Form 2441.** For example, see page 28.

C. Credit for income tax paid to another state. Oregon residents—you may claim this credit if you paid income tax to another state. The tax must be on income also taxed by Oregon. See page 28 for instructions.

D. Political contribution credit. Fill in **one-half** of your total political contributions, but not more than $50 on a joint return, $25 on all others. The contribution must be a donation of money to any of the following:

—a political party.

—a candidate for federal, state or local office. The candidate must be listed on a primary, general or special election ballot in Oregon. Or the candidate must have filed for nomination or candidacy in the year the contribution was made.

—a committee or association organized to support or oppose ballot measures or candidates to be voted on in Oregon.

To get the credit you must **attach a copy of your receipt or canceled check to your return.**

E. Credit for weatherizing your home. You may be eligible for this credit if you weatherize an Oregon residence.

- The home you weatherized must be heated by **oil, propane, butane or kerosene.** It also may be heated by wood if the back-up heat is one of these fuels.
- You must have weatherized after Dec. 31, 1980, but before Sept. 1, 1981.
  If you don't use oil, propane, butane or kerosene, you can't claim the weatherization credit for 1981.
- You must own the residence and either live in it or rent it out. Mobile homes and houseboats qualify. But homes under construction don't. Also, any of your weatherization costs financed by state aid or low interest loans (except state veteran's loans) won't qualify.

The credit is the lesser of $125 or 25 percent of your qualifying weatherization costs. Your credit can't be more than your income tax. If the credit is more than your tax, you may claim the remaining amount as a credit within five years. If it isn't used within that time, it is lost.

Claim the credit for only one dwelling in any one year. Your total credit claimed on one dwelling can't be more than $125. So your maximum 1981 credit will be $125 minus any credits for that same dwelling on your 1977 through 1980 returns.

Attach your completed weatherization certificate. Certificates are available from the Oregon Department of Revenue. If you need more information, contact the Oregon Department of Revenue. Ask for the "Weatherization tax credit" circular, IC-126-81R.

Do you heat with natural gas or electricity? Ask your heating utility about its weatherization program. You may qualify for a cash payment from your utility for weatherization you did in 1981.

You may still claim a carryover on your Oregon income tax return of an unused weatherization credit from a prior year.

F. Credit for home care of an elderly person. You may be eligible for this credit if you pay expenses for the care of an elderly person age 60 or older. See page 30 for instructions.

G. Credit for loss of use of limbs. If you have a permanent and complete loss of the use of two limbs, you may take a tax credit of $50. Your spouse also may get a $50 credit if your spouse qualifies. You can't claim this credit for a dependent.

Attach a Disability Certification Form to your return the first year you file for the credit. Get the form from your county public health officer. Have the health officer sign it. You also qualify for an additional exemption for severely disabled persons. See instructions, page 8.

FULL-YEAR RESIDENTS ONLY

FORM 40 OREGON INDIVIDUAL INCOME TAX RETURN 1981

For calendar year 1981 or fiscal year ending ____________

For office use only			
Code	Tax	P & I	Payment
Date received	Postmark date	Penalty date	

Last name	First name and initial	Social Security number
Spouse's last name if different and joint return	Spouse's first name and initial if joint return	Spouse's Social Security number

Mailing address			Telephone number
City	State	ZIP Code	County

Did you file an Oregon income tax return for 1980? ☐ Yes ☐ No

If NO, give reason ____________

For office use only

Filing Status

Check only one box

1 ☐ Single
2 ☐ Married filing jointly
3 ☐ Married filing separately ____________ (Spouse's name)
4 ☐ Unmarried head of household ____________ (Person who qualifies you)
5 ☐ Qualifying widow(er) with dependent child

Exemptions

	Regular	65 or older	Blind	Severely disabled	Total
Yourself	☐	☐	☐	☐	☐
Spouse	☐	☐	☐	☐	☐
Dependents ____________ (First names)					☐
Total exemptions claimed ●					☐

Attach W-2 wage slips and payment here

1 Federal adjusted gross income. Federal Form 1040, line 31, or federal Form 1040A, line 10 1

OREGON CHANGES TO INCOME

2 Interest received from All Savers Certificates .... ● 2
3 Changes in depreciation for Oregon .... ● 3
4 Other Oregon changes to federal income. Identify ____________ ● 4
5 Oregon adjusted gross income. Add lines 1, 2, 3 and 4 5

ADDITIONS

6 Interest on local government bonds of other states .... ● 6
7 Other additions. Identify ____________ ● 7
8 Total additions. Add lines 6 and 7 8
9 Income after additions. Line 5 plus line 8 9

SUBTRACTIONS

10 1981 federal tax (maximum $7,000; $3,500 if married filing separately) See instructions, page 21 .... ● 10
11 Oregon income tax refund included in federal income (not property tax refund) .... ● 11
12 Interest from U.S. government, such as Series E and H bonds .... ● 12
13 U.S. public retirement income. Not more than $3,400. See instructions, page 21 .... ● 13
14 Military active duty pay. Not more than $3,000. See instructions, page 22 .... ● 14
15 Oregon public retirement income .... ● 15
16 Other subtractions. Identify ____________ ● 16
17 Total subtractions. Add lines 10 through 16 17
18 Income after subtractions. Line 9 minus line 17 18

NOW GO TO THE BACK OF THE FORM →

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19 Amount from front of form, line 18 19

DEDUCTIONS AND EXEMPTIONS

Deductions: Fill in lines 20, 21, and 22. **OR** only line 23

20 Itemized deductions from Schedule A, line 39 ..... • 20

21 State income tax claimed as an itemized deduction ..... • 21

22 Net Oregon itemized deductions. Line 20 minus line 21 22

23 Standard deduction from table, page 10 23

EITHER, NOT BOTH

24 Exemptions. Multiply your total Oregon exemptions by $1,000 24

25 Total deductions and exemptions. Line 22 plus line 24. **OR** line 23 plus line 24 25

26 Oregon taxable income. Line 19 minus line 25. If line 25 is more than 19, fill in -0- ..... • 26

OREGON TAX

27 Oregon tax from rate charts, page 18 ..... • 27

28 Minimum tax. **Attach Schedule M** if you need to pay this extra tax ..... • 28

29 Total tax. Add lines 27 and 28 29

CREDITS

30 Credit for the elderly, 15% of your federal credit for the elderly ..... • 30

31 Child care credit, 40% of your federal child care credit ..... • 31

32 Credit for income tax paid to another state. **Attach proof.** See page 28 ..... • 32

33 Political contribution credit. See limits, page 29. **Attach proof** ..... • 33

34 Weatherization credit. For users of certain fuels. **Attach certificate.** See page 29 ..... • 34

35 Other credits. Identify ________ ..... • 35

36 Total credits. Add lines 30 through 35 36

37 Net income tax. Line 29 minus line 36. If line 36 is more than line 29, enter -0- 37

TAX PAYMENTS MADE IN 1981

38 Oregon income tax withheld from wages. **Attach W-2 wage slips** ..... • 38

39 Estimated tax payments for 1981 ..... • 39

40 Total tax already paid. Add lines 38 and 39 40

41 Refund. If line 37 is less than line 40, you have a refund. Subtract line 37 from line 40 ..... • 41

42 ESTIMATED TAX. Fill in all or part of line 41 you want to apply to your estimated 1982 tax ..... • 42

I wish to donate part of my tax refund to the following:

43 Oregon Nongame Wildlife Fund $1 ☐, $5 ☐, $10 ☐, Other $________, ☐ None • 43

44 Oregon Arts Development Fund $1 ☐, $5 ☐, $10 ☐, Other $________, ☐ None • 44

These will reduce your refund

45 Total. Add lines 42, 43 and 44. Total can't be more than line 41 45

46 **NET REFUND.** Line 41 minus 45. This is your net refund ..... • 46

47 **TAX-TO-PAY.** If line 37 is more than line 40, you have tax-to-pay. Subtract line 40 from line 37 ..... • 47

48 Penalty and interest. For filing or paying late, or interest for underpayment of estimated tax ..... • 48
If Form 10 is attached, check ▸ ☐. See page 31 of instructions.

ATTACH A COPY OF YOUR FEDERAL RETURN, FORMS AND SCHEDULES.
Filing a Homeowner and Renter Refund Form 70R? Attach Form 70R to this return.

Under penalties for false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. If prepared by a person other than taxpayer, this declaration is based on all information of which the preparer has any knowledge.

SIGN HERE

▶ ________ Your signature ________ Date

▶ ________ Spouse's signature (If filing jointly, BOTH must sign even if only one had income)

________ Signature of preparer other than taxpayer ________ License no

________ Address

Mail refund returns to: REFUND, P.O. Box 14700, Salem, OR 97310
Mail tax-to-pay returns to: Oregon Department of Revenue, P.O. Box 14555, Salem, OR 97310

FORM
40NR

OREGON INDIVIDUAL INCOME TAX RETURN

PART-YEAR RESIDENTS AND NONRESIDENTS ONLY

1981

For calendar year 1981 or fiscal year ending ____________

For office use only			
Code	Tax	P & I	Payment
Date received	Postmark date	Penalty date	

Last name
First name and initial
Social Security number
Spouse's last name if different and joint return
Spouse's first name and initial if joint return
Spouse's Social Security number
Mailing address
Telephone number
City
State
ZIP Code
County

Did you file an Oregon income tax return for 1980? ☐ Yes ☐ No If NO, give reason ____________

☐ Nonresident
☐ Oregon resident from ______ to ______ 1981

For office use only

• Filing Status

Check only one box
1 ☐ Single
2 ☐ Married filing jointly
3 ☐ Married filing separately ____________ (Spouse's name)
4 ☐ Unmarried head of household ____________ (Person who qualifies you)
5 ☐ Qualifying widow(er) with dependent child

Exemptions

	Regular	• 65 or older	Blind	• Severely disabled	Total
Yourself	☐	☐	☐	☐	☐
Spouse	☐	☐	☐	☐	☐
Dependents ____________ (First names)					☐
Total exemptions claimed •					☐

Attach W-2 wage slips and payment here

INCOME

		Total on your federal return	Oregon portion
1	Wages, salaries and other pay for work. **Attach W-2 wage slips** 1		
2	Interest 2a ______ PLUS dividends 2b ______ MINUS exclusion 2c ______ 2		
3	State and local income tax refunds 3		
4	Alimony received 4		
5	Business income or loss from federal Schedule C 5		
6	Capital gain or loss from federal Schedule D 6		
7	40% of capital gain distributions not reported on Schedule D 7		
8	Supplemental gains or losses from Form 4797 8		
9	Pensions and annuities. Total of federal Form 1040 lines 15 and 16b 9		
10	Rents, royalties, partnerships, estates or trusts, from Schedule E 10		
11	Farm income or loss from federal Schedule F 11		
12	Taxable unemployment and other taxable income from your federal return 12		
13	Total income. Add lines 1 through 13 13		•13

ADJUSTMENTS TO INCOME

14	Moving expenses from federal Form 3903 or 3903F 14		
15	Employee business expenses from federal Form 2106 15		
16	Payments to an IRA or Keogh plan 16		
17	Interest penalty on early withdrawal of savings 17		
18	Alimony paid 18		
19	Disability income exclusion and other adjustments from federal Form 1040 19		
20	Total adjustments to income. Add lines 14 through 19 20		
21	Income after adjustments. Line 13 minus line 20 21		

OREGON CHANGES TO INCOME

		Federal Portion	Oregon portion
22	Interest received from All Savers Certificates .... • 22		
23	Changes in depreciation for Oregon .... • 23		
24	Other Oregon changes to federal income. Identify ____________ • 24		
25	Total Oregon changes. Add lines 22, 23 and 24 25		•25
26	Income after Oregon changes. Add lines 21 and 25 .... 26a		•26b

27 **Oregon percentage.** Fill in the boxes below.

Line 26b	Divided by ÷	Line 26a	Equals =	27	Oregon % (Not more than 100%)

NOW GO TO THE BACK OF THE FORM →

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28 Amount from front of the form, line 26b 28

ADDITIONS

29 Interest on municipal bonds of states other than Oregon .... ● 29

30 Other additions. Identify ________ .... ● 30

31 Total additions. Add lines 29 and 30 31

32 Income after additions. Line 28 plus line 31 32

SUBTRACTIONS

33 Interest from U.S. Government, such as Series E and H bonds .... ● 33

34 U.S. public retirement income, not more than $3,400. See instructions, page 16 .... ● 34

35 Military active duty pay, not more than $3,000. See instructions, page 16 .... ● 35

36 Oregon public retirement income .... ● 36

37 Other subtractions. Identify ________ .... ● 37

38 Total subtractions. Add lines 33 through 37 38

39 Income after subtractions. Line 32 minus line 38 39

DEDUCTIONS AND EXEMPTIONS

Deductions. Fill in lines 40, 41, & 42 OR only line 43

40 Itemized deductions from your **federal Schedule A,** line 39 .... ● 40

41 State income tax claimed as an itemized deduction. See instructions, page 18 .... ● 41

42 Net Oregon itemized deductions. Line 40 minus line 41 42

43 Standard deduction from table on page 23 43

EITHER, NOT BOTH

44 1981 federal tax (Maximum $7,000 OR $3,500 if married filing separately) .... ● 44

45 Exemptions. $1,000 multiplied by your number of exemptions 45

46 Total deductions and exemptions. Add lines 42, 44 and 45 **OR** lines 43, 44 and 45 46

47 Allowable percentage from the front of the form, line 27 47

48 Allowable deductions and exemptions. **Multiply line 46 by line 47** 48

49 Oregon taxable income. Line 39 minus line 48 .... ● 49

OREGON TAX

50 Oregon tax from rate chart, page 23 .... ● 50

51 Minimum Tax. **Attach Schedule M** if you must pay this extra tax .... ● 51

52 Total tax. Add line 50 and line 51 52

CREDITS

53 Credit for the elderly. See instructions, page 19 .... ● 53

54 Child care credit. See instructions, page 19 .... ● 54

55 Credit for income tax paid to another state. **Attach proof.** See page 20 .... ● 55

56 Political contribution credit. **Attach copy of receipt or canceled check** .... ● 56

57 Other credits. Identify ________ .... ● 57

58 Total credits. Add lines 53 through 57 58

59 Net income tax. Line 52 minus line 58. If line 58 is more than line 52, enter -0-. 59

TAX PAYMENTS MADE IN 1981

60 Oregon income tax withheld from wages. **Attach W-2 wage slips** .... ● 60

61 Estimated tax payments for 1981 .... ● 61

62 Total tax already paid. Add line 60 and line 61 62

63 **Refund.** If line 62 is more than line 59, you have a refund. Subtract line 59 from line 62 .... ● 63

64 **ESTIMATED TAX.** Fill in all or part of line 63, you want to apply to your estimated 1982 tax .... ● 64

65 **NET REFUND.** Subtract line 64 from line 63. This is your refund .... ● 65

66 **Tax-to-pay.** If line 59 is more than line 62, you have tax-to-pay. Subtract line 62 from line 59 .... ● 66

67 Penalty and interest. For filing or paying late, or interest for underpayment of estimated tax .... ● 67
If Form 10 is attached, check ▶ ☐. See page 22 of instructions.

Under penalties for false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. If preparer by a person other than taxpayer, this declaration is based on all information of which the preparer has any knowledge.

SIGN HERE

Your signature ________ Date ________

Spouse's signature (If filing jointly, BOTH must sign even if only one had income) ________

Signature of preparer other than taxpayer ________ License no ________

Address ________

Mail refund returns to: REFUND, P.O. Box 14700, Salem, OR 97310

Mail tax-to-pay returns to: Oregon Department of Revenue, P.O. Box 14555, Salem, OR 97310

OREGON
AMENDED INDIVIDUAL INCOME TAX RETURN

FORM
40-X

FOR TAX YEAR ____________

For Office Use			
Code	Tax	P & I	Payment

Last name	First name and initial	Social Security number
Spouse's last name, if different and joint return	Spouse's first name and initial, if joint return	Spouse's Social Security number
Address		Telephone number
City	County	State ZIP Code

INCOME AND DEDUCTIONS	A. As originally reported or as adjusted (See Specific Instr.)	B. Net change (Increase or Decrease— explain on Pg. 2)	C. Correct amount
1. Income			
2. Oregon changes to Federal Income			
3. Additions			
4. Federal Income Tax (Form 40S only)			
5. Subtractions			
6. Deductions (standard deduction or itemized deductions)			
7. Exemptions			
8. Oregon Taxable Income			

TAX AND CREDITS

9. TAX			
10. MINIMUM TAX			
11. TOTAL OREGON TAX (add lines 9 and 10)			
12. Oregon Income Tax Withheld			
13. Income Tax Credits (can't be more than amount on line 11)			

14. Estimated Tax Payment(s) for the tax year
15. Amount paid with original return and any later payment(s) for the tax year
16. Total Credits and Payments (add Column C, lines 12, 13, 14 and 15)
17. Less: Income Tax Refunds < >
18. Net Amount (subtract line 17 from line 16)

REFUND OR BALANCE DUE

19. Refund Requested (if line 18 exceeds line 11, Column C)
20. Additional tax due (if line 11, Column C is greater than line 18)
21. Interest on additional tax
22. Balance Due from line 39
23. Interest on Balance Due on line 22
24. BALANCE DUE (add lines 20, 21, 22 and 23) Pay in full with this return

25. Homeowner and Renter Refund Requested (from line 38)

Mail this return to: Oregon Department of Revenue, Revenue Building, Salem, Oregon 97310

Under penalties of false swearing, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief this amended return is true, correct, and complete.

Sign ◆ ....
Your signature Date

Signature of preparer other than taxpayer, based on all information of which he has any knowledge. Date

here ◆ ....
Spouse's signature (if filing jointly, BOTH must sign even if only one had income)

Address

(40-X)
150-101-040 (12-81)

BE SURE TO COMPLETE PAGE 2

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HOMEOWNER AND RENTER REFUNDS	A. As originally reported or as adjusted	B. Net change (Increase or Decrease)	C. Correct Amount
26. Household Income			
27. Property Tax (less state payment)			
28. Renter: 17% of Rent Paid			
29. Less: 4.7% of Rent Paid			
30. Line 28 minus Line 29			
31. Maximum Refund			
32. Tentative Property Tax Refund			
33. Special Shelter Allowance (ADC)			
34. Property Tax Refund (line 32 minus line 33)			
35. Renter Relief (enter amount from line 29, column C)			
36. Total Refund (line 34 plus line 35)			
37. Less: Refund Already Received			
38. Refund Requested (if line 36 is more than line 37) (Also enter this amount on line 25)			
39. Additional Amount Due (if line 37 is more than line 36) (Also enter this amount on line 22)			

EXEMPTIONS

1. Additional exemptions for Yourself—and Spouse (Check only those boxes not checked on original return)

	Regular	65 or over	Blind	Severely disabled	Enter number of boxes checked
Yourself	☐	☐	☐	☐	
Spouse	☐	☐	☐	☐	

2. Dependents not claimed on original return	(a) NAME	(b) Relationship	(c) Months lived in your home. If born or died during year also write "B" or "D"	(d) Did dependent have gross income over $750 for tax years 1977 or 1978? Or over $1000 for 1979 and after? If so, indicate total income.	(e) Amount YOU furnished for dependent's support. If 100% write "ALL"	(f) Amount furnished by OTHERS including dependent. See instructions.

3. Number of exemptions claimed on original return ☐ 4. Total number of exemptions claimed ☐

EXPLANATION OF CHANGES MADE. Show computations in detail. Attach applicable schedules.

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120-101-049 (Back) (12-81)

FORM
70R

OREGON HOMEOWNER AND RENTER REFUND FORM

1981

Please print or type

Claimant's last name	**Claimant's** first name and initial	Social Security number	Age
Spouse's last name if different	Spouse's first name & initial	Spouse's Social Security number	Spouse's age
Mailing address		Telephone number	
City	State / ZIP Code	County	

Did you file an Oregon Individual Income Tax Return for 1981? ☐ Yes ☐ No

For office use only

FILL IN lines 1 through 24 below if:
- You are a renter (no income limit), or
- You are a homeowner with household income less than $17,500, or
- You are a mobile home resident who pays rent (no income limit), or
- You own your mobile home AND land and have household income less than $17,500.

DON'T FILE this form if you have household income $17,500 or more, AND
- Own your home, OR
- Own BOTH your mobile home AND land.

WORK OR INVESTMENTS

1 WAGES, SALARIES and other pay for work 1
2 INTEREST, DIVIDENDS (total taxable and nontaxable) 2
3 BUSINESS NET INCOME (loss limited to $1,000) 3
4 Farm net income (loss limited to $1,000) 4
5 Total gain on property sales (loss limited to $1,000) 5
6 Rental net income (loss limited to $1,000) 6
7 Net operating loss carryback and carryforward (limited to $1,000) 7
8 Other income from your federal return. Identify ________ 8
9 Add lines 1 through 8 .... ● 9

RETIREMENT

10 Social Security, Supplemental Security Income (SSI), Railroad Retirement (total for 1981) ... 10
11 Pension, annuity (total taxable and nontaxable received during 1981) 11
12 Add lines 10 and 11 .... ● 12

OTHER

13 ADULT AND FAMILY SERVICES (Welfare) .... ● 13
14 UNEMPLOYMENT .... ● 14
15 CHILD SUPPORT 15
16 Veteran's benefits, military pay and benefits 16
17 Disability pay, life insurance proceeds, personal injury damages, strike benefits 17
18 Workers' compensation, accident and health insurance payments 18
19 Inheritances 19
20 Gifts and grants: total amount minus $500 20
21 Add lines 13 through 20 21
22 Total. Add lines 9, 12 and 21 22
23 Adjustments to income from federal Form 1040, lines 22 through 27 and line 29 .... ● 23
24 Your total household income. Line 22 minus line 23 .... ● 24

HOMEOWNERS — Now go to **section A** on the back of this form.
MOBILE HOME RESIDENTS — Now go to **section B** if you own your mobile home AND/OR land. Go to **section C** if you rent BOTH your mobile home AND land.
RENTERS — Now go to **section C** on the back of this form.

150-101-075 (10-81)

Complete only one section.

A **HOMEOWNERS** Owned on Dec. 31, 1981

25 Total ASSESSED VALUE of the home you owned and occupied Dec. 31, 1981. Attach your 1981-82 Property Tax Statement .... ● 25

26 Total PROPERTY TAX on your home. Subtract the state payment. Don't subtract the discount you got for paying by Nov. 15, 1981. Don't include any special assessments. .... ● 26

27 MAXIMUM REFUND from the HARRP table for homeowners. 27

28 SMALLER of line 26 or line 27 28

29 Special Shelter Allowance (Aid to Dependent Children) .... ● 29

30 YOUR HOMEOWNER REFUND Line 28 minus line 29 .... ● 30

B **MOBILE HOME OWNERS** Owned on Dec. 31, 1981

31 Total ASSESSED VALUE of your mobile home and/or land you owned and occupied on Dec. 31, 1981. Attach your 1981-82 property tax statement(s). (If you rented your home and land, file as a renter.) .... ● 31

32 TOTAL PROPERTY TAX on your home and/or land. Subtract the state payment. Don't subtract the discount you got for paying by Nov. 15, 1981. Don't include any special assessments. .... ● 32

33 TOTAL OREGON RENT for 1981 from Rental Schedule below. .... ● 33

34 Optional: Refund amount from worksheet, line 22 or line 24 (if you filled out worksheet) .... ● 34

C **RENTERS** Didn't own on Dec. 31, 1981

35 TOTAL OREGON RENT for 1981 from the Rental Schedule below .... ● 35

36 Optional: Refund amount from worksheet, line 10 or line 23 (if you filled out worksheet) .... ● 36

Check the box if you paid rent to a nursing home ☐ or a retirement (rest) home ☐.

SPECIAL PROGRAM FOR ELDERLY RENTERS

You may qualify for a larger refund. See instructions for Elderly Rental Assistance. Fill in line 37 if you qualify for the program.

37 Total fuel and utilities only (not telephone). DON'T INCLUDE RENT .... ● 37

RENTAL SCHEDULE List the places you rented in Oregon and the rent you paid for 1981. Roommates: only one may file.

Your address(es): street, city, state	Roommates' names	Landlord(s)	1981 rental period From	To	Rent per month	Total

TOTAL RENT FOR 1981. Add the rent you paid for 1981. Fill in the total in this space. ....

Under penalties for false swearing, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. If prepared by a person other than taxpayer, this declaration is based on all information of which the preparer has any knowledge.

SIGN HERE

Claimant's signature (Person listed first on front of form) Date

Signature of preparer other than taxpayer License no

MAIL YOUR FORM 70R WITH YOUR OREGON INCOME TAX RETURN IF YOU FILE A RETURN.
Mail all others to: REFUND, P.O. Box 14700, Salem, OR 97310

YOU'LL GET YOUR REFUND IN OCTOBER 1982.

Refund worksheet

For renters and mobile home owners

PTR—Property Tax Relief Plan
HARRP—Homeowner and Renter Refund Program

The Oregon Department of Revenue will figure the refunds for renters and mobile home owners. If you are a renter or a mobile home owner, you may use this worksheet to figure what your refund will be for your own records. Follow the instructions below. Please fill in on Form 70R, line 34 or 36, the refund you figured. Keep this worksheet for your records.

Household income less than $17,500:

Renter: (Completed Section C, Form 70R).

1. Household income .... 1 ______
2. Rent $______ x 17% .... 2 ______
3. PTR refund. Rent $______ x 4.7%* .... 3 ______
4. Line 2 minus line 3 .... 4 ______
5. Maximum refund from table .... 5 ______
6. Smaller of line 4 or line 5 .... 6 ______
7. Special Shelter Allowance (ADC) .... 7 ______
8. HARRP refund (line 6 minus line 7) .... 8 ______
9. Fill in the amount from line 3 .... 9 ______
10. Total refund (line 8 plus line 9) .... 10 ______

Mobile home owner: (Completed Section B, Form 70R).

11. Household income .... 11 ______
12. Rent $______ x 17% .... 12 ______
13. PTR refund. Rent $______ x 4.7%* .... 13 ______
14. Line 12 minus line 13 .... 14 ______
15. Property tax on mobile home or land (less state payment)... 15 ______
16. Line 14 plus line 15 .... 16 ______
17. Maximum refund from table .... 17 ______
18. Smaller of line 16 or line 17 .... 18 ______
19. Special Shelter Allowance (ADC) .... 19 ______
20. HARRP refund (line 18 minus line 19) .... 20 ______
21. Fill in the amount from line 13 .... 21 ______
22. Total refund (line 20 plus line 21) .... 22 ______

Household income $17,500 or more:

You get a check from Oregon Property Tax Relief Plan (PTR).

23. **Renters:** Rent $______ x 4.7%* .... 23 ______
24. **Mobile home owners:** Rent $______ x 4.7%* .... 24 ______

*The maximum amount allowed on this line depends on funds available for Oregon's Property Tax Relief Plan (PTR). The maximum can't be determined until September 1982. At that time, we will use the new maximum to figure your refund. This means the amount you figure on line 10, 22, 23 or 24 may change.

150-101-054 (10/81)

HARRP Maximum Refund Table

Homeowners

If your total household income line 24, Form 70R is:		**Homeowners, Mobile Homeowners** Your maximum refund is:
At Least	But Less Than	
If less than 500		750
500	1,000	729
1,000	1,500	708
1,500	2,000	687
2,000	2,500	666
2,500	3,000	645
3,000	3,500	624
3,500	4,000	603
4,000	4,500	582
4,500	5,000	561
5,000	5,500	540
5,500	6,000	519
6,000	6,500	498
6,500	7,000	477
7,000	7,500	456
7,500	8,000	435
8,000	8,500	414
8,500	9,000	393
9,000	9,500	372
9,500	10,000	351
10,000	10,500	330
10,500	11,000	309
11,000	11,500	288
11,500	12,000	267
12,000	12,500	246
12,500	13,000	225
13,000	13,500	204
13,500	14,000	183
14,000	14,500	162
14,500	15,000	141
15,000	15,500	120
15,500	16,000	99
16,000	16,500	78
16,500	17,000	57
17,000	17,500	36
17,500 or more		0

Renters

If your total household income line 24, Form 70R is:		**Renters** Your maximum refund is:
At Least	But Less Than	
If less than 500		375
500	1,000	365
1,000	1,500	354
1,500	2,000	344
2,000	2,500	333
2,500	3,000	323
3,000	3,500	312
3,500	4,000	302
4,000	4,500	291
4,500	5,000	281
5,000	5,500	270
5,500	6,000	260
6,000	6,500	249
6,500	7,000	239
7,000	7,500	228
7,500	8,000	218
8,000	8,500	207
8,500	9,000	197
9,000	9,500	186
9,500	10,000	176
10,000	10,500	165
10,500	11,000	155
11,000	11,500	144
11,500	12,000	134
12,000	12,500	123
12,500	13,000	113
13,000	13,500	102
13,500	14,000	92
14,000	14,500	81
14,500	15,000	71
15,000	15,500	60
15,500	16,000	50
16,000	16,500	39
16,500	17,000	29
17,000	17,500	18
17,500 or more		0

Instructions

1. Check the box of your payment due date.
2. Print your name, address, Social Security number(s) and phone number on Form 40ES.
3. Check the box if your address changed since the last time you filed Form 40ES.
4. Fill in the amount of your payment.
5. Sign the form. Both spouses must sign if filing a joint Form 40ES.
6. Write your Social Security number(s) on your check or money order.
7. Make your check or money order payable to: Oregon Department of Revenue.
8. Mail your payment with the completed Form 40ES to:
   Oregon Department of Revenue
   P.O. Box 14950
   Salem, OR 97310

150-101-027 (back) (12-81)

FORM
40ES

Oregon Individual Estimated Tax

Check for payment due:
1 ☐ April 15, 1982
2 ☐ June 15, 1982
3 ☐ Sept. 15, 1982
4 ☐ Jan. 17, 1983

For office use only
Postmark date

Last name	First name and initial	Social Security number
Spouse's last name if different and joint Form 40ES	Spouse's first name and initial if joint Form 40ES	Spouse's Social Security number

Check if new address ☐	Mailing address		Telephone number
	City	State	ZIP Code

YOUR SIGNATURE	Amount of this payment $ ____________
SPOUSE'S SIGNATURE (if filing jointly)	

150-101-027 (12-81)

Estimated tax worksheet

Keep this worksheet for your records.

1. Oregon taxable income you expect in 1982 .... 1 ______
2. 1982 estimated Oregon income tax. (Use the tax tables or tax rate charts in your 1981 Oregon income tax packet. Figure the tax for the amount on line 1 above.) .... 2 ______
3. Any minimum tax you expect for 1982. To find out if you need to pay minimum tax, see your 1981 Oregon income tax packet .... 3 ______
4. Add lines 2 and 3 .... 4 ______
5. Income tax credits you expect for 1982 .... 5 ______
6. Taxes you expect withheld from your wages in 1982 .... 6 ______
7. Add lines 5 and 6 .... 7 ______
8. 1982 Oregon estimated tax. Line 4 minus line 7 (not less than -0-) .... 8 ______
9. Amount you owe on each payment date. See chart below .... 9 ______

If you first need to pay estimated tax on:	Then fill in on line 9 of this worksheet:
April 15, 1982	¼ of line 8 (Make 4 payments)
June 15, 1982	⅓ of line 8 (Make 3 payments)
Sept. 15, 1982	½ of line 8 (Make 2 payments)
Jan. 17, 1983	All of line 8 (Pay in full)

On Form 40ES fill in the amount from line 9 of this worksheet. If you are applying part of your 1981 Oregon income tax refund to a payment, see the section on payments, page 5.

Form 10 Underpayment of Oregon Estimated Tax 1981

Name	Social Security number

PART I How to figure your underpayment (Fill in lines 1 to 8 below.)

You have an underpayment if you paid less than 80 percent of the tax you owed on each payment due date.

If you have an underpayment for either payment date you must:
- meet an exception for that payment date (See PART II or PART IV) or
- pay interest on your underpayment of estimated tax (See PART III).

1. 1981 Oregon net income tax, Form 40, line 37; or Form 40NR, line 59 .... 1. ______

2. 80% of amount on line 1 above (amount on line 1 multiplied by .80) .... 2. ______

Fill in the amounts below for each date a payment was due.

	Payment due dates	
	April 15, 1981	June 15, 1981
3. If you needed to pay estimated tax on both payment dates, take the amount on line 2 and divide by 4. Fill in the amount in both columns. If you needed to pay estimated tax only on June 15, 1981, take the amount on line 2 and divide by 2. Fill in the amount in the June 15 column		
4. 1981 estimated tax paid and tax withheld for each payment period		
5. Overpayment from prior period (from line 7 below)	▨	
6. Add lines 4 and 5		
7. Overpayment. If line 3 is less than line 6, subtract line 3 from line 6		
8. Underpayment. If line 3 is more than line 6, subtract line 6 from line 3. If you don't have an underpayment (line 8) for either period, don't file this form		

PART II Exceptions to paying interest (Farmers and fishers, see PART IV.)

	April 15, 1981	June 15, 1981
9. Total amount of 1981 estimated tax paid and tax withheld from Jan. 1, 1981, through each payment due date		
10. Exception 1.—1980 tax. Fill in your total 1980 tax ▶ ______	25% of 1980 tax	50% of 1980 tax
11. Exception 2.—Tax on 1980 income using 1981 tax rates and exemptions. (See worksheet on back.)	25% of tax	50% of tax
12. Exception 3.—Tax on annualized 1981 income. (See worksheet on back.)	20% of tax	40% of tax
13. Exception 4.—Tax on 1981 income over 3- and 5-month period. (See worksheet on back.)	90% of tax	90% of tax

PART III Interest on underpayment of estimated tax. If you don't meet an exception for a period, fill in lines 14 through 19 for the same period.

	April 15, 1981	June 15, 1981
14. Amount of underpayment for each period (from line 8)		
15. Date you paid underpayment or April 15, 1982, whichever is earlier		
16. Number of months from due date to payment date shown on line 15. Count part of a month as one month		
17. Multiply 1.5% (.015) by amount on line 16		
18. Interest due for each payment period. Line 14 multiplied by line 17		

19. Total interest due. Add first and second columns of line 18. Fill in this amount on Form 40, line 48; or Form 40NR, line 67 .... ☐

PART IV Exception for farmers and fishers

To meet this exception your gross income from farming or fishing must be equal to or greater than two-thirds (66.7%) of your total gross income for 1980 or 1981.

If you qualify for this exception, check the box .... ▶ ☐

Then, attach this form to your 1981 Oregon income tax return. You don't need to pay interest on underpayment of estimated tax.

150-101-028 (12/81)

Instructions for PART II

There are four exceptions to paying interest on your underpayment. These exceptions are similar to federal exceptions. You won't have to pay interest if your 1981 tax payments (PART II, Line 9) are equal to or more than any one of the exceptions (PART II, Lines 10, 11, 12, or 13) for the same payment period.

Exception 1 (line 10). 1980 tax. The amount on line 9, PART II, must be equal to or more than the net income tax on your 1980 Oregon return (Form 40S, line 13; Form 40, line 33; Form 40NR, line 55). Your 1980 Oregon income tax return must cover 12 months. It must also show an amount due on the net income tax line.

Exception 2 (line 11). Tax on 1980 income using 1981 tax rates and exemptions. The amount on line 9, PART II, must be equal to or more than the tax due on your 1980 income using 1981 tax rates. Refigure your 1980 income using exemptions from your 1981 return. But for other items, such as income and deductions, use the amounts from your 1980 Oregon return. Figure this exception using the worksheet below.

Exception 3 (line 12). Tax on 1981 annualized income. The amount on line 9, PART II, must be equal to or more than 80 percent of the tax on your annualized taxable income for each payment period. To figure your annualized income, use the worksheet below.

Exception 4 (line 13). Tax on 1981 income over 3- and 5-month period. The amount on line 9, PART II, must be equal to or more than 90 percent of your actual tax for the period. To figure your actual tax for each period, use the worksheet below.

Exception 2 worksheet

1. Oregon 1980 taxable income using 1981 exemptions	
2. Oregon tax using 1981 tax rate on amount on line 1	
3. Oregon minimum tax from your 1980 return	
4. Line 2 plus line 3. Tax on 1980 income using 1981 tax rates and exemptions	

Exception 3 worksheet

To figure your annualized income, itemized deductions, additions and subtractions, use the formula below:

First payment: Actual amount (from 1-1-81 to 3-31-81) × 4 = annualized amount

Second payment: Actual amount (from 1-1-81 to 5-31-81) × 2.4 = annualized amount

Exceptions: Figure your federal tax and your standard deduction using the line instructions below.

	Jan. 1, 1981 to March 31, 1981	Jan. 1, 1981 to May 31, 1981
1. Annualized Oregon adjusted gross income		
2. Annualized Oregon additions		
3. Add line 1 and line 2		
4. Annualized Oregon subtractions except federal tax		
5. Federal tax figured on your annualized federal taxable income		
6. Exemptions multiplied by $1,000		
7. Annualized net itemized deductions OR standard deduction using income from line 1		
8. Add lines 4 through 7		
9. Annualized Oregon taxable income. Line 3 minus line 8		
10. Oregon tax on amount on line 9		
11. Oregon minimum tax on annualized tax preference items		
12. Total annualized tax. Line 10 plus line 11		

Exception 4 worksheet

	Jan. 1, 1981 to March 31, 1981	Jan. 1, 1981 to May 31, 1981
1. Actual Oregon adjusted gross income for the period		
2. Actual Oregon additions for the period		
3. Add line 1 and line 2		
4. Actual Oregon subtractions (except federal tax) for the period		
5. Federal tax based on federal taxable income for the period		
6. Number of exemptions multiplied by $1,000		
7. Actual net itemized deductions for the period, OR standard deduction using income from line 1		
8. Add lines 4 through 7		
9. Oregon taxable income for the period. Line 3 minus line 8		
10. Oregon tax on amount on line 9		
11. Any minimum tax on tax preference items for the period		
12. Total Oregon tax for the period. Line 10 plus line 11		

Oregon Depreciation Schedule 1981

Attach this form to your Oregon return.

Name

Social Security number or withholding registration number

Did you have property you began depreciating in 1981? If so, you must use **1980 federal law** to figure your Oregon depreciation. You can't use the new federal Accelerated Cost Recovery System (ACRS). ACRS is the depreciation you claimed on Part I of federal Form 4562.

Use this schedule to figure your "Oregon changes" for property you began depreciating in 1981.

Don't use this schedule for property you began depreciating before 1981. Your Oregon depreciation for that property will be the same as the depreciation on your federal return.

Full-year residents—On Form 40, **line 3,** fill in the amount from line 6 of this schedule.

Part-year and nonresidents—On Form 40NR, **line 23,** (federal portion) fill in the amount from line 6 of this schedule. On Form 40NR, **line 23** (Oregon portion), fill in the amount from line 6 of this schedule that is from:

- property you owned while an Oregon resident **OR**
- property used to produce Oregon income.

Note: The amount on line 6 of this schedule should include differences for depreciation on **all** property you began depreciating in 1981. This includes property you didn't use in an Oregon business.

For further instructions, see the separate instruction sheet 150-101-029.

For all assets placed in service after December 31, 1980

Description of property (a)	Date placed in service (b)	Cost or other basis (c)	Method of figuring depreciation (d)	Life or rate (e)	Oregon depreciation for property placed in service in 1981 (f)	Federal depreciation for the property (g)
1 Total additional first-year depreciation. See instructions for limits.→						▨
2 Other depreciation:	▨	▨	▨	▨	▨	▨

3 Totals	3		
4 Depreciation on assets listed above in ending inventory	4		
5 Balance. Line 3 minus line 4	5		

6 Change in depreciation for Oregon. Line 5(g) minus line 5(f). Fill in this amount on Form 40 or Form 40NR. (See instructions above) .... 6 ☐

150-101-025 (10-81)

Instructions for 1981
Oregon Depreciation Schedule

Tax words

Useful life - The number of years you can reasonably expect to:

- use the property in your trade or business, or
- hold the property to produce income for you.

Depreciation - This is the way you deduct the cost of the property over its useful life. Property you depreciate must have a useful life of more than one year. Depreciation starts when you place the property in service. You place the property in service when you first make it available for use. You can't depreciate the cost of land.

Basis of property - Basis for figuring depreciation is the same basis you would use to figure the gain on the sale of that property. Generally, the cost of the property is its basis.

Salvage value - The amount you expect the property to be worth at the end of its useful life. Salvage value is figured when you acquire the property.

Methods of depreciation

You may use any method allowed under 1980 federal tax law. The most common methods of depreciation are explained below.

Straight-line. You may use the straight-line method for any depreciable property.

Here's how to figure straight-line depreciation:
1. Useful life (in years). 1 ______
2. Cost or other basis of property. 2 ______
3. Additional first-year depreciation on this property. 3 ______
4. Salvage value (see note). 4 ______
5. Line 3 plus line 4. 5 ______
6. Amount you will depreciate. Line 2 minus line 5. 6 ______
7. Depreciation for a full year. Line 6 ÷ line 1. 7 ______

If you had the property less than one year, you can take only part of a year's depreciation based on the number of months you had the property.

Note: Did you have personal property with a useful life of 3 years or more? If so, you may reduce the salvage value by 10 percent of the cost or other basis. Salvage value can't be less than -0-.

Declining balance - You may use the declining balance method only for certain kinds of property. Only the property below qualifies.

Qualifying property	Qualifying percentage
Real property	
• New residential rental property	200%
• Other new real property	150%
• Used residential property, 20 or more years of useful life	125%
Personal property with 3 or more years of useful life	
• New tangible personal property	200%
• Used tangible personal property	150%

Here's how to figure declining balance depreciation for each year:

1. Cost or other basis of property. ______
2. Depreciation taken in earlier tax years and first-year depreciation. ______
3. Line 1 minus line 2. ______
4. 1.0 divided by useful life. ______
5. Qualifying percentage (see above). ______
6. Line 4 multiplied by line 5. ______
7. Depreciation for a full year. Line 3 multiplied by line 6. ______

Don't subtract salvage value. But you can't depreciate your property below a reasonable salvage value.

Did you have the property less than one year? Then you may take only part of a year's depreciation. Figure your depreciation based on the number of months you had the property.

continued on back

Line instructions

We haven't included line instructions fully explained on the form.

Line 1. Additional first-year depreciation. You may be able to deduct 20 percent of the cost of the property in the first year. That is in addition to your regular depreciation deduction. The property must be tangible personal property with a useful life of at least six years. Examples of tangible personal property include machinery, office equipment, transportation equipment, printing presses, refrigerators, individual air conditioning units and grocery counters. It doesn't include real estate.

You may not take additional first-year depreciation for property you:

- got as a gift or inheritance
- got from certain related parties
- converted from personal use

You may claim the smaller of:

- 20 percent of the total cost of qualifying property, or
- $2,000 ($4,000, married filing jointly)

A partnership's additional first-year depreciation is limited to $2,000. Each partner's share of this amount plus any other additional first-year depreciation claimed by the partner can't total more than $2,000 ($4,000 on a joint return).

Figure your additional first-year depreciation before you figure your regular depreciation. Don't subtract salvage value before you figure additional first-year depreciation.

Did you trade old property for new property in a nontaxable exchange? The cost of the new property doesn't include the adjusted basis of the property traded in when you figure your additional first-year depreciation.

On line 1 fill in the total additional first-year depreciation for the year. Don't include the additional first-year depreciation on line 2.

Line 2. Other depreciation.

2a Fill in a brief description of the asset.

2b Fill in the date you placed the property in service.

2c Fill in the cost or other basis of your property.

2d What method of depreciation did you use? You may write SL for straight-line; DDB for 200 percent declining balance; 150% DB for 150 percent declining balance; or 125% DB for 125 percent declining balance.

2e Fill in the useful life of the property.

2f Fill in the Oregon depreciation you figure for this property.

2g Fill in the federal depreciation you claimed on this property.

Line 4. Depreciation in ending inventory. Did you include depreciation from assets listed on the schedule in inventory costs on the federal return? If so, you must figure ending inventory for Oregon.

4f Fill in any depreciation from **column f** to be included in Oregon ending inventory.

4g Fill in any depreciation from **column g** you included in ending inventory costs on your federal return.

Special cases

Accelerated depreciation for rehabilitated low-income housing is available for Oregon. Also you may use the Class Life Asset Depreciation Range (CLADR) system. These apply to only a few people so they aren't explained here.

Questions? Call TAX HELP:

Portland 224-8050
Salem 371-2244
Eugene 345-7577
Elsewhere in Oregon (toll free) 1-800-452-2838
Outside Oregon (not toll free) 1-503-371-2244
TTY (teletypewriter for those
with speech and hearing problems) 373-1826

OREGON
DEPARTMENT OF REVENUE

Minimum Tax Schedule M 1981

Last name	First name and initial	Social Security number
Spouse's last name if different and joint return	Spouse's first name and initial if joint return	Spouse's Social Security number

Fill in this schedule and pay the minimum tax on preference items if:

(1) You have preference items of more than $10,000 ($5,000 if married filing separately);

OR

(2) Your Oregon adjusted gross income (line 5, Form 40, or line 26b, Form 40NR) plus preference items subject to Oregon tax from lines 1a and 1b below total $20,000 or more ($10,000 if married filing separately); **AND**

Your total preference items are more than $3,000 ($1,500 if married filing separately).

Attach this schedule to your Oregon Form 40 or Form 40NR.

1. Tax preference items. **See instructions on back**			
a. Accelerated depreciation on real property	1a.		
b. Accelerated depreciation on leased personal property	b.		
c. Capital gains:			
(1). Capital gain deduction (federal Schedule D, line 21)	c(1).		
(2). Capital gain deduction from federal return (not on Schedule D)	c(2).		
(3). Capital gain deduction claimed only for Oregon	c(3).		
d. Adjusted itemized deductions	d.		
e. Stock options	e.		
f. Amortization of certified pollution control facilities	f.		
g. Amortization of railroad rolling stock	g.		
h. Amortization of on-the-job training facilities	h.		
i. Amortization of child care facilities	i.		
j. Excess intangible drilling costs	j.		
2. Total tax preference items (add lines 1(a) through 1(j))	2.		
3. **MINIMUM TAX** (from rate chart below). Fill in your tax here and on your Oregon Form 40, line 28, or Oregon Form 40NR, line 51	3.		

Minimum Tax Rate Charts

For MARRIED persons FILING SEPARATELY

If the sum of your tax preference items is:	Your tax is:
Not over $2,500	1 % of excess over $1,500
Over $2,500 but not over $3,500	$10 plus 1.5% of excess over $2,500
Over $3,500 but not over $4,500	$25 plus 2 % of excess over $3,500
Over $4,500 but not over $6,000	$45 plus 2.5% of excess over $4,500
Over $6,000	$82.50 plus 3 % of excess over $6,000

For persons filing JOINTLY, HEAD OF HOUSEHOLD, SINGLE, or QUALIFYING WIDOW(ER) WITH DEPENDENT CHILD

If the sum of your tax preference items is:	Your tax is:
Not over $5,000	1 % of excess over $ 3,000
Over $ 5,000 but not over $ 7,000	$ 20 plus 1.5% of excess over $ 5,000
Over $ 7,000 but not over $ 9,000	$ 50 plus 2 % of excess over $ 7,000
Over $ 9,000 but not over $12,000	$ 90 plus 2.5% of excess over $ 9,000
Over $12,000	$165 plus 3 % of excess over $12,000

Instructions

1.a,b Accelerated depreciation on real or leased personal property.

If you claim accelerated depreciation on real property or leased personal property, you have a preference item. Fill in the amount claimed in excess of straight line depreciation.

Did you begin depreciating the property in 1981? If so, use the Oregon accelerated depreciation shown on your Oregon Depreciation Schedule. Then, refigure your Oregon depreciation using the straight-line method. Your preference item is the Oregon accelerated depreciation you claimed in excess of the Oregon straight-line depreciation.

1.c Capital gains.

c(1). Your capital gain deduction is a preference item. Fill in the amount from your federal Schedule D, line 21. There are two exceptions. Don't include the gain from the sale of your personal residence. Also, don't include the gain from the sale of your Oregon farm if you lived on the farm for at least five years just before the sale.

Did you have a capital gain on property you began depreciating in 1981? If so, figure the gain using the Oregon depreciation shown on your Oregon Depreciation Schedule. Then, figure your net long-term capital gain using the capital gain you figured for Oregon. Fill in 60 percent of your Oregon net long-term capital gain.

c(2). Include other federal capital gain items. The taxable part of the gain was reported on federal Form 1040, line 13. Fill in the part of the gain you excluded on your federal return.

c(3). Also include long-term capital gain deductions claimed for Oregon only. For example, fill in 60 percent of the capital gain portion of your lump sum distribution reported on line 7, Form 40; or line 30, Form 40NR.

1.d Adjusted itemized deductions.

Adjusted itemized deductions start with your total deductions for Oregon from Schedule A. Subtract casualty losses, medical expenses, state and local taxes or federal estate tax deduction. Subtract those same four items from your Oregon adjusted gross income. Figure 60 percent of the balance. If your adjusted itemized deductions are more than the 60 percent amount, the difference is a tax preference item. Use the following schedule to compute your adjusted itemized deductions and enter the amount on line 1d.

1. Total itemized deductions, Oregon Form 40, line 20 .... 1. ____________
2. Casualty losses, medical expenses, state and local taxes and federal estate tax deduction .... 2. ____________
3. Line 1 minus line 2 .... 3. ____________
4. Oregon adjusted gross income (Oregon Form 40, line 5) .... 4. ____________
5. Total amount on line 2 .... 5. ____________
6. Line 4 minus line 5 .... 6. ____________
7. 60 percent of line 6 .... 7. ____________
8. Adjusted itemized deductions (line 3 minus line 7) .... 8. ____________

1.e Stock options.

The fair market value of stock at the time you exercise an option minus the option price is a preference item if the stock was received under a qualified or restricted stock option.

1.f,g,h,i Amortization.

You may amortize over a 60-month period the cost of certified pollution control facilities, railroad rolling stock, on-the-job training facilities and child care facilities. Amortization in excess of the amount computed using the normal life of the item is a preference item.

1.j Excess intangible drilling costs.

First compute the intangible drilling costs you would have deducted had the costs been capitalized and straight line recovery of intangibles been used. Add to that amount your net income from oil, gas and geothermal properties. If the sum is less than your allowable intangible drilling and development costs, the difference is a tax preference item.

Oregon Department
of Revenue
Salem, Oregon 97310

Statement of Claimant to Refund Due—Deceased Taxpayer

For calendar year ________, or other taxable year beginning
________________, 19____, and ending ________________, 19____

Please type or print

Name of decedent	Name of claimant
Date of death / Social security number†	Number and street
No. and street (Permanent residence or domicile on the date of death)	
City or town, State, and ZIP code / County	City or town, State, and ZIP code / County

1. Did the deceased leave a will? ☐ Yes ☐ No
2. (a) Has a Personal Representative been appointed by the court for the estate? ☐ Yes ☐ No
   (b) If "No," will one be appointed? ☐ Yes ☐ No

NOTE: If 2(a) or (b) is checked "Yes," the Personal Representative should claim the refund.

3. I am filing this statement as (check only one box).
   (a) ☐ Surviving wife or husband, claiming a refund based on (1) a joint income tax return, (2) a claim for Homeowner and Renter Property Tax Refund or, (3) a claim for Elderly Rental Assistance.
   (b) ☐ Personal Representative of Estate (attach a copy of the court appointment)
   (c) ☐ Claimant other than above. Complete Schedule A.

Schedule A. (To be completed only if 3(c) above is checked.)

I (we) promise to use all the money to pay the expenses of last illness and of the funeral of the decedent if necessary. If, after payment of the check by the State Treasurer, the decedent's estate is probated, I (we) promise to account fully to the Personal Representative of the estate.

I (we) qualify for the payment as: (Oregon Revised Statutes 293.490 and 293.495)
(check one)

( ) surviving spouse

( ) children of the decedent, or children of a deceased child of the decedent

( ) parents

( ) brothers and sisters

( ) nephews and nieces

There are no survivors in the group that include the claimant's except those who signed below,* and there are no survivors in any of the groups preceding the claimant's.

Signature and Verification

I (we) declare under the penalties of false swearing that the above statements are true. I (we) understand that the Oregon Department of Revenue will issue the check to the claimant named above.

Dated this __________ day of ______________________, 19_____.

---

†The social security number is required for identification purposes. Oregon Administrative Rule 150-305.100.

*If Schedule A is completed, all persons in the group of eligible claimants must sign.

(243)
150-101-032 (11-78)

Oregon
Weatherization Certificate

1981

For users of qualified fuels only

Read instructions carefully.

To qualify

- You must use **oil, propane, butane or kerosene** as your main source of heat (or as your back-up source if you have a wood-heated home).
- You must have weatherized after Dec. 31, 1980, but before Sept. 1, 1981.

If you weatherized your home during 1981, but you heat with **natural gas or electricity, contact your heating utility** for a cash payment. You don't qualify for the Oregon weatherization income tax credit.

Other information

- See the back of this form for qualifying items.
- Claim the credit for only one dwelling in any one year.
- The weatherization credit is 25 percent of the cost of the weatherization materials and installation. But you can't claim more than $125 minus any credits you claimed in previous years for the same dwelling.
- You must be the owner or recorded buyer at the time you weatherize. The dwelling must be a principal residence you live in or rent to others.
- The dwelling must be in Oregon.
- Dwelling includes mobile homes, floating homes and individual units within multiple-unit residential housing.
- Homes under construction don't qualify. Remodeling that adds living space doesn't qualify.
- You can't claim weatherization costs financed by state aid, grant, refund, low-interest or no-interest loans. You still qualify for the credit if your weatherization loan is from the Oregon Department of Veterans' Affairs or if you have a conventional bank loan.
- Complete the lines below. Sign the form. Attach this form to your 1981 Oregon income tax return.

Name	Social Security number

What was done to weatherize?

Where was the weatherization done (street address, city and state)?	When did you weatherize?

Did you heat your home with: fuel oil ☐, propane ☐, butane ☐, kerosene ☐, other ________

Check if you weatherized a mobile home ☐, floating home ☐, unit in a multi-unit dwelling ☐

YOUR 1981 CREDIT

1)	Total cost for 1981 — materials and installation	$	
2)	25% of line 1	$	
3)	Lesser of amount from line 2 or $125		$
4)	Maximum credit allowed per dwelling	$ 125.00	
5)	Total credits claimed for same dwelling in prior years	$	
6)	Maximum 1981 credit. Line 4 minus line 5		$
7)	1981 tax credit. Lesser of line 3 or line 6		$

Enter your credit on the line for "Weatherization Credit," Form 40, line 34, OR Form 40S, line E.

If you file Form 40NR, multiply the amount on line 7 (above) by your allowable Oregon percentage (line 27, Form 40NR). Fill in the amount on line 57, Form 40NR. Label the line "weatherization."

I declare under penalties of false swearing that the above statements are true.

TAXPAYER'S SIGNATURE	DATE SIGNED

150-550-001 (10-81)

These items qualify for the 1981 weatherization tax credit (fuel oil, propane, butane and kerosene users only)

Insulation

1. ceiling or attic. Including insulation on the exterior of flat roofs. But not any roofing material installed on top of insulation.
*2. exterior walls
*3. basement walls or crawl-space foundation walls
4. floors over unheated spaces and materials to support insulation
5. heating-system supply and return air ducts in unheated spaces
6. water heaters, and water or steam pipes in unheated spaces
7. weather stripping
8. caulking
*9. vapor-barrier materials
10. ground cover in crawl spaces
*11. cost of renting equipment to blow in insulation

Furnaces

1. furnace or boiler replacement burners resulting in increased combustion efficiency (must replace existing burner and be of same fuel type). Burners that are part of new furnace or boiler don't qualify.
*2. replacement furnaces or boilers that replace an existing converted solid-fuel gravity furnace. The old furnace must have once burned sawdust, wood or coal before conversion to fuel oil. Replacement must be of same fuel type as furnace it replaced.

Windows and doors

1. storm or thermal windows
2. storm or thermal doors

Miscellaneous

1. electric ignition devices for gas appliances, except those acquired as part of a new appliance.
2. water-flow regulating devices on any hot water outlet
*3. attic ventilation (excluding power ventilators)
4. dehumidifiers, plug-in type or permanently installed
5. timed thermostats
6. automatic vent dampers installed on furnaces, boilers or water heaters
7. improved draft hoods restricting flue heat loss during on and off cycles on furnaces, boilers or water heaters
*8. timers installed on hot water circulation pumps serving multiple-unit residential housing
9. flue-heat recovery devices for use on oil-fired furnaces or boilers
10. insulated shades and shutters tightly sealed on all four sides. (R-value must be at least 3. If foam plastic, the maximum flame spread rating can't be more than 75.)

***These items don't qualify for mobile homes.**

These items don't qualify for the weatherization tax credit

1. siding
2. roofing
3. carpeting
4. microwave ovens and other appliances
5. dimmer switches
6. heat pumps
7. wood or sawdust-burning stoves, heaters, furnaces
8. ceiling to floor air circulators
9. thermal draperies and awnings
10. radiator temperature control valves
11. furnace tune-up and cleaning
12. appliance electricity consumption meter
13. new gasketing for refrigerators, freezers and ovens
14. solar-control films or screens
15. transient voltage surge suppressors
16. power ventilators
17. fireplace modifications (outside air inlets, glass screens, heat exchangers, fire box inserts, cost of sealing off fireplaces)
18. automatic water heater schedulers
19. insulation of mobile home walls
20. skirting on mobile home
21. flue heat recovery devices for use on woodburning equipment
22. any insulation, other than on a water heater, water pipe or heating ducts, not installed between a heated area and an unheated area
23. any materials installed in new construction, additions to existing structures, or remodeling which adds living space

Questions about qualifying items?

Call the Oregon Department of Energy:

Salem	378-4040
Elsewhere in Oregon (toll free)	1-800-452-7813

Tax credit questions?

Call the Oregon Department of Revenue:

Portland	224-8050
Salem	371-2244
Eugene	345-7577
Elsewhere in Oregon (toll free)	1-800-452-2838
Outside Oregon (not toll free)	(503) 371-2244
TTY (teletypewriter for those with speech and hearing problems)	373-1826

OREGON
DEPARTMENT OF REVENUE

publications

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LOCAL BUDGETING IN OREGON Introduction to the local budgeting process. Includes summary of how to assemble a budget, publish notices, hold hearings, formally adopt a budget and levy taxes. (1982) NC

SUMMARY OF OREGON TAXES Brief explanations of parts of Oregon's tax system. (1982) NC

THE SURVIVOR'S HANDBOOK Explains Oregon's taxes on estates, property and income of decedents. Contains information on probate, filing requirements and deadlines. (1980) NC

THE TAX JUNGLE BOOK Cartoon-illustrated booklet explaining basic economics and Oregon's tax structure. For high school students and others who want tax information with a light touch. (1980) NC

Statistics

PERSONAL INCOME TAX ANALYSIS Statistical breakdown of Oregon personal income tax returns. Tables include income, number of exemptions, amount of deductions, taxable income, tables for each county in Oregon. New publications available each year 18 months after end of tax year. $5.00

PROPERTY TAX STATISTICS Contains tables of property values and tax levies for each county in Oregon, and statistical breakdown by taxing districts. Available annually. $8.00

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INCOME AND INHERITANCE TAX LAW ABSTRACTS Abstracts of formal and informal opinions of Oregon Department of Revenue and attorney general, and court decisions that apply to Oregon income, gift and inheritance tax laws. Price includes new cumulative edition published each July and one-year subscription to periodic abstract sheets. $35.00

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CADASTRAL MAP STANDARDS, CONCEPTS AND CARTOGRAPHIC PROCEDURES (Second Edition) Comprehensive mapping manual. (1981) $45.00

COST APPROACH TO VALUE, INCOME APPROACH TO VALUE, MARKET APPROACH TO VALUE Programmed texts that cover three basic approaches to value in appraising. Geared toward Oregon's mass appraisal program. Available as a set only. (1977) $15.00 per set

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COST FACTOR BOOKS Appraiser's aids, listing procedures for using replacement cost approach to value. Illustrations of various types of buildings.

Commercial (1980)	$15.00
Farm (1982)	$15.00
Residential (1981)	$12.00

LOCAL BUDGET MANUAL For use in budget operations of local taxing districts in Oregon: cities, counties, school districts, special service districts. Contains Oregon laws, administrative rules, budget preparation requirements.

(1975) $10.00

Other information

BIENNIAL REPORT to the Legislature. Contains overview of department, summary of operations and progress reports on programs.

$2.00

INFORMATION FOR OREGON EMPLOYERS Explains how employers register for Oregon withholding tax, employment tax and workers' compensation coverage. Contains withholding tables, registration forms, sample report forms and general information for employers. (1982)

NC

REVENEWS Newsletter to tax preparers of income, corporation, inheritance and gift tax returns. Information on new laws and administrative rules. Published periodically. NC

REVENOTES Newsletter for persons involved with local budget preparation and property taxes. Information on new laws and administrative rules. Published periodically. NC

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